

The Wisconsin Department of Health and Family Services (DHFS) administers a wide range of services to clients in communities and institutions, regulates certain care providers, and supervises and consults with local public and voluntary agencies. It administers state and federal programs involving public health, mental health, substance abuse, long-term care, services to the disabled, medical assistance, and children's services. DHFS disbursed over \$3.7 billion during FY 1997-98; federal grants to the State financed over \$2.0 billion of that amount.

As part of our standard audit procedures, we reviewed DHFS's internal control policies and procedures over receipts, disbursements, and the administration of federal financial assistance programs. We tested compliance with grant requirements for six major grants. Overall, we found the agency's internal control structure to be adequate and the agency to be in compliance with the grant requirements for the major programs. However, we have concerns in the following areas: grant transaction coding, risk analysis and system security reviews related to the Medical Assistance program, Medical Assistance claim overpayments, and reconciliation of Medical Assistance expenditure information.

In addition, we followed up on the progress DHFS has made in implementing recommendations included in our FY 1996-97 single audit report (98-12). DHFS has addressed concerns related to nurse aide misconduct investigations and performance reporting. However, we continue to have concerns related to property management, subrecipient monitoring, and quality control reviews.

Grant Transaction Coding

DHFS requests federal reimbursement for the majority of the federal grants it administers through the Federal Cash Management (FCM) System maintained by the State Controller's Office in the Department of Administration. It is important that accounting information recorded on WiSMART, the State's central accounting system, be complete, including use of "reporting categories," because the FCM System uses this information to initiate federal reimbursement requests. Without reporting categories, federal grant transactions recorded on WiSMART are not interfaced with the FCM System and, therefore, the State does not automatically receive federal reimbursement. Generally, reporting categories are automatically and accurately assigned to accounting transactions based upon computer tables used during the daily interface between DHFS's agency-level accounting system and WiSMART.

However, in order to facilitate the year-end reconciliation between DHFS's accounting system and WiSMART, DHFS enters certain accounting transactions directly into WiSMART. We reviewed 57 transactions, which is the majority of the transactions entered directly into WiSMART at the end of FY 1997-98. We identified 20 federal

grant expenditure transactions that did not include a reporting category. These transactions were accounting entries to increase or decrease expenditures recorded in federal appropriations. However, since these transactions did not include the necessary reporting categories, the draw down of federal funds, or the return of previously received funds, may not have taken place as intended. Of particular concern is that \$282,513 of previously received Maternal and Child Health Services Block Grant to the States (catalog #93.994) funds and \$3,581 of Preventive Health and Health Services Block Grant (catalog #93.991) funds were not returned to the federal government in a timely manner. This concern is partially offset by funds that should have been, but were not, drawn down in a timely manner.

These errors occurred because the individual who entered the transactions directly into WiSMART during the reconciliation process was not aware that reporting categories were necessary for expenditures charged to federal grants. Additionally, reporting categories were not required on the form completed by the grant accountants requesting the year-end transactions.

Prior to the end of our fieldwork, DHFS staff reviewed the transactions processed during the FY 1997-98 reconciliation and effectively returned to the federal government the necessary amounts of previously received federal reimbursements.

FINDING WI-98-1: *We recommend the Wisconsin Department of Health and Family Services instruct staff to use reporting categories on future transactions entered directly into the State's central accounting system that affect federal grants.*

Questioned Costs: Multiple Grants: Cash Management = None

DHFS Response and Corrective Action Plan: As noted by the auditors, the transactions entered directly into WiSMART as part of the FY 1997-98 reconciliation process have been reviewed, and revenue has been drawn or returned to the federal government as appropriate. In the future, staff will be directed to include reporting categories on all transactions entered directly into WiSMART that affect federal grants.

ADP Risk Analysis and System Security Reviews

DHFS administers the Medical Assistance Program (catalog #93.778), which is highly dependent on extensive and complex computer systems to make Medical Assistance benefit payments. DHFS has contracted with Electronic Data Systems (EDS) to administer the Medicaid Management Information System (MMIS), which is the primary computer system to process benefit payments. Federal rules require DHFS to:

- establish a security plan for automated data processing (ADP) systems that includes policies and procedures related to: 1) physical security of ADP resources; 2) equipment security; 3) software and data security; 4) telecommunications security; 5) personnel security; 6) contingency plans to meet critical processing needs in the event

of short- or long-term interruption of service; 7) emergency preparedness; and 8) designation of an agency ADP security manager;

- establish and maintain a program for conducting periodic risk analyses to ensure appropriate, cost-effective safeguards are incorporated into new and existing systems; and
- perform biennial ADP system security reviews of installations involved in Medical Assistance administration. These reviews should, at a minimum, include an evaluation of physical and data security operating procedures and personnel practices.

While EDS administers MMIS, DHFS is ultimately responsible for ensuring a security plan exists that addresses the eight security areas and for ensuring that the risk analyses and system security reviews are completed. Additionally, there may be other computer systems used in administering the Medical Assistance Program that should have an established security plan and be considered for review as a part of the ADP risk analysis and system security reviews.

However, DHFS has not complied with federal requirements in this area. DHFS has not established a security plan, conducted periodic risk analyses, or performed a biennial ADP system security review of MMIS or any other computer system used to administer the Medical Assistance Program. DHFS has not yet developed policies and procedures in this area, in part because the applicable federal rules did not take effect until July 1996 and because DHFS gave other tasks higher priority.

FINDING WI-98-2: *We recommend the Wisconsin Department of Health and Family Services comply with federal requirements and ensure that a security plan is documented for computer systems used to administer the Medical Assistance Program and ensure the required risk analyses and system security reviews over the computerized systems are performed.* The federal requirements are not specific as to how DHFS should fulfill its responsibilities. During the course of our fieldwork, we discussed with staff a number of options they could consider, including whether DHFS must actually perform the security reviews or whether EDS may perform the reviews itself.

Questioned Costs: Medical Assistance Program (catalog #93.778): ADP Risk Analysis and System Security Reviews = None

DHFS Response and Corrective Action Plan: The Division of Health Care Financing (DHCF) believes that many of the federal requirements for an MMIS security plan are being met through existing requirements in the fiscal agent contract. DHCF will take steps to assure that the security plan for the MMIS is formally documented. Some of the security plan components, such as contingency plans and emergency preparedness, have recently been addressed as part of the DHFS efforts to assure year 2000 readiness.

During FY 1999-2000, DHCF will establish a plan for conducting periodic risk analyses and for performing biennial ADP system security reviews of installations involved in Medical Assistance administration. To accomplish this objective, the following resources and options will be considered:

- requesting to assign staff from various divisions and offices who have appropriate skills and experience in ADP security to coordinate and/or perform the reviews;
- requesting technical assistance and consultation from Department of Administration information technology staff with experience in ADP security policies, industry standards, and practices;
- incorporating certain aspects of the ADP Systems Review into the request for an annual independent electronic data processing audit of the fiscal agent;
- using audit reports and security reviews performed directly by the fiscal agent through its local and/or corporate offices used to support MMIS; and
- contracting for ADP system security risk analyses and security reviews subject to the availability of funding and resources.

Medical Assistance Claim Overpayment

Federal regulations for the Medical Assistance program (catalog #93.778) require that allowable costs must be covered by the state Medical Assistant plan or waivers, be for allowable services rendered, be paid at the rates allowed by the state plan, and be net of all applicable credits. A majority of expenditures for the Medical Assistant program are payments to the various entities that provide services to eligible recipients. DHFS uses MMIS to process payments to providers and has contracted with EDS to administer that system. MMIS calculates payments to providers based upon information entered into the system, such as the claims received from the providers and the approved rates for the providers.

Claims made by nursing homes represented 37.8 percent, or \$982 million, of total state and federal Medical Assistance expenditures during FY 1997-98. We reviewed 25 claims, totaling \$60,800, made by nursing homes during FY 1997-98 to ensure that the calculations of the claim payments were made in accordance with federal regulations. In calculating payments to providers, reductions are made for amounts due from other parties, including patients. Patient liability amounts are determined by the entities that certified them as eligible for Medical Assistant and are recorded on the MMIS. In some instances, patient liability amounts are entered into the MMIS after their effective dates have begun. For one of the claims we reviewed, the patient liability amount that should have been deducted was not entered into the MMIS until after the claim payment had been processed and after the effective date of the liability amount. Therefore, the

MMIS used the patient liability amount shown on the claim from the provider, which was lower than the amount later entered into the MMIS. As a result, the provider received an overpayment of \$147 for this claim, \$87 of which was reimbursed by the federal government. While we found only one error during our review, patient liability amounts were present on 22 of the 25 claims reviewed. Given the number of claims processed, additional errors of this nature could be occurring.

We discussed the overpayment with EDS staff, who indicated that unlike other information used in the calculation of claim payments, there is no type of retroactive adjustment processed by the MMIS when updated patient liability information is received. Additionally, because the patient liability amounts are included on the eligibility table within the MMIS, EDS indicated that retroactive adjustments could not be processed for changes in this amount after the start of the effective period. In these instances, EDS relies on the providers to inform it when amounts were collected from other entities or in excess of expected amounts. If such situations occur, the providers are to submit adjustment claims to correct the original claim submitted. EDS staff indicated that no adjustment was submitted by the provider for the claim overpayment found during our review.

FINDING WI-98-3: *We recommend the Wisconsin Department of Health and Family Services implement procedures to find, research, and correct, if necessary, instances in which patient liability amounts were entered or modified after the beginning of their effective dates.*

Questioned Costs: Medical Assistance Program (catalog #93.778): Claim Overpayment = \$87, plus an undetermined amount

DHFS Response and Corrective Action Plan: The Division of Health Care Financing believes that the overpayment occurrence is minimal. Many, if not most, of the nursing home claims involving a change in patient liability will be adjusted automatically when EDS processes claim adjustments due to retroactive rate changes. Retroactive nursing rate changes occur for the majority of nursing homes, and there is a monthly process to identify and adjust any previously paid claim to account for the new rates. The adjustment process will consider changes in patient liability that occurred after the original claim was processed.

For any claims with changes in patient liability that are not adjusted by the provider, or through the retroactive rate process, DHCF will develop a process for EDS to identify and adjust claims to account for changes in patient liability. DHCF can use the Medical Evaluation and Decision Support system to identify the affected claims, and EDS can manually submit claim adjustments. DHCF will determine how often to run this process based on its analysis of the occurrence of situations involving a change inpatient liability. DHCF will have this process in place by not later than October 1, 1999, and will also have EDS recover the overpayment.

Reconciliation of Medical Assistance Expenditure Information

All grants administered by DHFS are assigned to project monitors within the Bureau of Fiscal Services who monitor grant expenditures and complete required federal financial reports. It is important for the project monitor of the Medical Assistance program (catalog #93.778) and the State Survey and Certification of Health Care Providers and Suppliers (catalog #93.777) grant to reconcile expenditures reported on the quarterly HCFA-64 and HCFA-435 financial reports to federal reimbursements received through the Federal Cash Management (FCM) system maintained by the State Controller's Office in the Department of Administration. This reconciliation ensures the accuracy of the amounts reported in the quarterly reports and also ensures that DHFS has received federal reimbursement for reported expenditures. However, DHFS has not completed these reconciliations since the quarter ended March 31, 1998.

During FY 1998-99, there has been turnover in the project monitor position responsible for the Medical Assistance and State Survey and Certification grants. Currently, the Bureau of Fiscal Services has assigned a different project monitor for each grant. Both project monitors have started working on performing current and prior quarter reconciliations.

FINDING WI-98-4: *We recommend the Wisconsin Department of Health and Family Services give priority to performing reconciliations of expenditures reported on the quarterly financial reports to federal reimbursements received through the federal cash management system.* DHFS should prepare a schedule with expected completion dates for the reconciliations for prior quarters and monitor its progress towards completion.

Questioned Costs: Medical Assistance Program (catalog #93.778):
Reconciliation of Quarterly Report to FCM System = None

State Survey and Certification of Health Care Providers and Suppliers
(catalog #93.777): Reconciliation of Quarterly Report to FCM System = None

DHFS Response and Corrective Action Plan: The Bureau of Fiscal Services has developed a timetable for reconciliation of the Medical Assistance and survey and certification quarterly financial reports to the federal cash management system. The Medical Assistance reconciliations for federal fiscal year 1999 will be completed by March 1, 2000, and survey and certification reports by January 1, 2000.

Prior Audit Follow-up

As part of our current audit, we followed up on the progress DHFS has made in implementing findings WI-97-1 through WI-97-5 of our FY 1996-97 single audit report. DHFS has addressed concerns related to nurse aide misconduct investigations and performance reporting. However, we continue to have concerns related to property management, subrecipient monitoring, and quality control reviews.

Nurse Aide Misconduct Investigations

Health care providers employ staff to perform routine patient care, such as monitoring patients' conditions and assisting them with daily activities. Because of the close contact with residents, these nurse aides have an opportunity to abuse, neglect, or steal from residents. Federal and state governments have instituted a system of training and certification requirements for nurse aides and a system of investigating complaints of nurse aide misconduct.

To implement these safeguards, DHFS created the Caregiver Registry and Investigative Unit. Among other duties, this unit investigates complaints of abuse, neglect or theft by nurse aides in nursing homes, hospitals, home health agencies, or facilities for the developmentally disabled.

The State Operations Manual issued by the federal Health Care Financing Administration for the Medical Assistance Program (catalog #93.778) requires that investigations of allegations be completed in a "swift and timely" manner. The Medical Assistance State Plan allows 60 calendar days, beginning on the day the complaint was lodged, for completing the investigation. As reported in the Legislative Audit Bureau's Evaluation of Nurse Aide Misconduct Investigations (report 97-19), we found that only 4.2 percent of cases submitted between April 1992 and September 1997 met the 60-day time requirement.

During our FY 1996-97 single audit, we noted that DHFS had taken measures to ensure compliance with federal grant requirements for investigation of complaints of misconduct by nurse aides and recommended that DHFS continue to develop and implement procedures that allow it to meet the 60-day time line for nurse aide investigations (Finding WI-97-1).

In response to our recommendations, DHFS developed a new investigative manual and addressed staff shortages reported in our prior report. The backlog of pending cases has been reduced from a high of 477 in January 1997 to 61 at March 31, 1999. Additionally, the percentage of investigations completed within 60 days has increased from 4.2 percent at the time of our original evaluation to 66.2 percent for the period of January through March 1999.

Performance Reporting

Federal requirements, as summarized for individual grants in the Catalog of Federal Domestic Assistance, frequently include annual and/or quarterly performance reports. Performance reports are generally used by the federal agencies to monitor grant progress and to determine future funding of the grant. Inaccurate reporting could affect the quality of decisions made by the federal agency.

During our FY 1996-97 audit, we had two concerns related to the 1996 annual performance report DHFS prepared for the Immunization Grants (catalog #93.268)

and the Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances grant (catalog #93.104) (Finding WI-97-2). First, DHFS made errors in the data included in the 1996 performance report for the Immunization Grants. Second, DHFS did not document procedures to prepare data and did not maintain adequate supporting documentation for performance reports for both grants, although DHFS was able to reproduce all of the data reported.

We did not identify material errors in this area during our current audit. We reviewed the 1997 performance report for the Immunization Grants and found that DHFS maintained adequate documentation related to the preparation of the report. We selected six items from the report to test. While we found an inaccurate percentage reported for vaccines wasted and unaccounted for, DHFS staff sent the appropriate federal agency a memorandum on April 7, 1999, correcting the performance report.

DHFS has not been required to complete a performance report for the Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances grant since our prior audit. Therefore, we did not review any performance reports for that grant.

Property Management

The Common Rule and other federal regulations require state agencies that acquire permanent property with federal funds to follow state and department property management policies. DHFS's policy is to maintain equipment inventory records; annually perform a physical inventory of equipment and reconcile the results to the equipment records; and maintain an appropriate control system to safeguard equipment. During our FY 1996-97 audit, we reviewed equipment records and verified the existence of equipment purchased with federal funding. We found some inventory records, such as the location of the equipment, were not accurate. We recommended (Finding WI-97-3) that DHFS update inventory records to ensure equipment is accounted for.

However, DHFS has not updated all of the inaccuracies identified during our prior audit, such as inventory locations. Additionally, the Division of Health, which had equipment funded by federal grants, did not complete a physical inventory during FY 1997-98. Effective for FY 1998-99, the Division of Health has been reorganized into the Division of Health Care Financing and the Division of Public Health. Division staff told us a physical inventory was not completed because of confusion created when certain accounting functions were consolidated within the Bureau of Fiscal Services. Division staff believed the responsibility for performing the physical inventory also transferred to the Bureau of Fiscal Services, even though DHFS's written policy still required that this be done by the divisions. DHFS is currently updating written procedures to clarify responsibilities related to equipment property management.

FINDING WI-98-5: *We recommend the Wisconsin Department of Health and Family Services ensure that department policies requiring an annual physical inventory and up-to-date inventory records are followed.*

Questioned Costs: Multiple Grants: Property Management = None

DHFS Response and Corrective Action Plan: The Bureau of Fiscal Services has assigned a staff person to assist when performing physical inventories of capital assets. Division staff must participate because they know where the capital assets are located. However, by assigning Bureau of Fiscal Services staff to assist, DHFS will ensure that the inventories are taken. As stated by the auditors, the Bureau of Fiscal Services is updating procedures and forms on handling of capital assets to ensure timely reporting, recording, and verification.

Subrecipient Monitoring

According to OMB Circular A-133 and *State Single Audit Guidelines* published by the Wisconsin Department of Administration, DHFS is to receive audit reports from subrecipients required to have an audit, perform desk reviews of the reports, issue timely management decisions on audit findings, and require subrecipients to take timely corrective action on deficiencies identified in audits. The *State Single Audit Guidelines* require these tasks to be completed within 180 days of when all information required to perform audit monitoring duties has been received by the office responsible for the review.

During our FY 1996-97 audit, we reported that DHFS did not meet the 180-day guideline for a majority of the reports reviewed. In addition, we noted a backlog of 39 audit reports that awaited review as of the time of our prior audit, even though the 180-day period had passed. We recommended (Finding WI-97-4) DHFS take necessary steps to meet state timeliness standards for reviewing subrecipient audits.

As a part of our current audit, we reviewed resolution data for the audit reports received in FY 1997-98. We found 17 of the audit reports in the backlog had still not been reviewed as of March 31, 1999. In addition, DHFS had not met the 180-day guideline for 8 of the 15 reports we reviewed. DHFS staff explained other tasks were given priority, such as revising the provider agency audit guide and redesign of the audit tracking system.

FINDING WI-98-6: To ensure compliance with subrecipient monitoring, *we again recommend the Wisconsin Department of Health and Family Services take necessary steps to meet timeliness standards for reviewing subrecipient audit reports.*

Questioned Costs: Multiple Grants: Subrecipient Monitoring = None

DHFS Response and Corrective Action Plan: The Office of Program Review and Audit (OPRA) agrees with the recommendation and the need to achieve timeliness standards. Once a vacant auditor position is filled, a greater share of audit staff time will be focused on completing reviews of audits for which DHFS is the cognizant agency, now that other high priority tasks, such as revising audit policies and redesigning the audit tracking system, have been largely completed. In addition, a contractor has been hired to assist with the audit reviews.

Quality Control Reviews

DHFS is the state cognizant agency for the 72 counties in Wisconsin, 11 tribes, 5 cities, and several other entities. According to state single audit guidelines, the state cognizant agency must perform quality control reviews for 5 percent of the audits to determine whether the independent auditors have followed the required auditing standards and guidelines for single audits.

During our prior audit, we reported DHFS was required to complete five quality control reviews for FY 1995-96 and an additional five reviews for FY 1996-97. However, DHFS completed only five of the ten scheduled reviews for those years. We recommended (Finding WI-97-5) that DHFS perform the required number of quality control reviews.

During our current audit, we reviewed DHFS's efforts to complete the remaining five scheduled quality control reviews for FY 1995-96 and 1996-97, as well as its progress toward completing the five required reviews for FY 1997-98. As of March 31, 1999, DHFS had yet to complete two reviews for FY 1996-97 audits and four reviews for FY 1997-98 audits. Of the six unfinished reviews, DHFS completed fieldwork for three, but it has not started fieldwork for the remaining three. The required reviews had not been completed because staff had been assigned to other projects with higher priority. While DHFS has made some progress towards completing the required quality control reviews, continued efforts are needed in this area.

FINDING WI-98-7: To fulfill state cognizant agency responsibilities, *we again recommend the Wisconsin Department of Health and Family Services ensure at least the minimum number of quality control reviews are performed each year.*

Questioned Costs: Multiple Grants: Quality Control Reviews = None

DHFS Response and Corrective Action Plan: OPRA concurs with the recommendation and appreciates the recognition of the progress made in completing required reviews. OPRA believes that progress should continue this year once a vacant auditor position is filled and required high priority tasks have been largely completed.

Wisconsin Department of Health and Family Services
Summary of Findings and Questioned Costs
FY 1997-98

U.S. Department of Health and Human Services

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Grant</u>	<u>Finding</u>	<u>Amount Questioned</u>
WI-98-2	93.778	Medical Assistance Program	ADP Risk Analysis and System Security Reviews	\$0
WI-98-3	93.778	Medical Assistance Program	Claim Overpayment	\$87, Plus an Undetermined Amount
WI-98-4	93.777	State Survey and Certification of Health Care Providers and Suppliers	Reconciliation of Quarterly Report to FCM System	0
WI-98-4	93.778	Medical Assistance Program	Reconciliation of Quarterly Report to FCM System	0

Noncompliance Findings Affecting Multiple Grants

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Grant</u>	<u>Finding</u>	<u>Amount Questioned</u>
WI-98-1		Multiple Grants	Cash Management	\$0
WI-98-5		Multiple Grants	Property Management*	0
WI-98-6		Multiple Grants	Subrecipient Monitoring*	0
WI-98-7		Multiple Grants	Quality Control Reviews*	0

* Repeat finding from audit report 98-12

Inquiries regarding resolution of findings and questioned costs should be directed to the agency contact person listed in Appendix I of this report.

DEPARTMENT OF WORKFORCE DEVELOPMENT

The Wisconsin Department of Workforce Development (DWD) administers programs for unemployment insurance, workers' compensation, equal rights in employment and housing, apprenticeship job training, employment services and training, income maintenance, vocational rehabilitation, and other related programs. DWD administers Wisconsin Works, Wisconsin's welfare replacement program for Aid to Families with Dependent Children that is based on work participation. Excluding unemployment insurance benefits, DWD disbursed \$879.9 million during FY 1997-98; federal grants to the State financed \$530.1 million of that amount. In addition, the Wisconsin Unemployment Insurance Reserve Fund financed \$467.6 million of unemployment insurance benefits, the federal government financed \$5.0 million of unemployment insurance benefits awarded to federal employees and for other reasons, and DWD issued \$135.9 million of food stamps during FY 1997-98.

As part of our standard audit procedures, we reviewed DWD's internal controls over revenue, expenditures, and the administration of federal grant programs. We tested its compliance with grant requirements for nine major grants administered by DWD. Overall, we found DWD's internal controls to be adequate and DWD to be in compliance with the requirements for administering the major federal grant programs. However, we have concerns in the areas of cash management, duplicate reimbursements, coding expenditures to cost pools, federal reporting and advances to subrecipients for the Job Training Partnership Act Cluster, and access to the Kids Information Data System.

In addition, we followed up on findings included in our prior Single Audit report (98-12). DWD has yet to receive federal approval for its public assistance cost allocation plan.

Cash Management

Effective cash management requires state agencies to request federal reimbursement as soon as practical after incurring allowable expenditures. State agencies cannot, however, obtain federal funds in advance of incurring reimbursable expenditures. During our fieldwork, we identified one instance in which DWD requested federal reimbursement before incurring allowable expenditures and another instance in which DWD did not request reimbursement for allowable expenditures in a timely manner.

DES and DVR Administrative Expenditures

As a result of the departmental reorganization that took effect July 1, 1996, the Division of Economic Support (DES) and the Division of Vocational Rehabilitation (DVR) were transferred from the Department of Health and Family Services (DHFS)

to DWD. These divisions brought DWD several federal programs that require the State to provide state matching expenditures of 10 percent to 50 percent of total program expenditures.

During FY 1996-97, DES and DVR activity was accounted for on the DHFS accounting system. The State properly charged the federal and state share of grant expenditures on that system. However, during FY 1997-98, DES and DVR activity were moved to DWD's accounting system. While DWD properly charged some costs, such as aids to individuals and aids to subrecipients, to federal grant and state matching accounts, DWD initially charged certain administrative costs entirely to federal grant accounts and only later transferred state matching expenditures to state accounts. The effect of this was to cause the State's cash management system to initially draw federal reimbursement for 100 percent of administrative expenditures. The excess reimbursement was returned to the federal government through the cash management system the next month, when DWD transferred expenditures to state matching accounts.

The interest earned by the State on the temporary excess federal reimbursements is interest lost to the federal government. DWD staff note that federal funds for certain payroll costs paid during the month are not received until the end of the month and suggest that these late federal reimbursements offset the early draws related to the other administrative costs.

We reviewed administrative costs, as well as payroll payments, made during FY 1997-98. Based on information available to us, we estimate the interest gained by the State at the expense of the federal government for administrative costs was \$221,800, while the offsetting interest lost to the State for delayed reimbursement of payroll was \$51,500. The difference is an estimated \$170,300 in excess interest earned by the State during FY 1997-98 at the expense of the federal government.

During FY 1998-99, DWD continues to initially charge all administrative costs to federal accounts and later transfer the State's share to state accounts and, therefore, continues to earn interest at the expense of the federal government. In addition, State Controller's Office staff note that there may be other delays in requesting reimbursement through the cash management system that may further offset the interest lost by the federal government.

FINDING WI-98-8: *We recommend the Wisconsin Department of Workforce Development ensure it charges grant expenditures to state and federal accounts in a manner that results in the federal government reimbursing the State for only the federal government's share of grant expenditures. In addition, we recommend the Department of Workforce Development work with the State Controller's Office to calculate and return to the federal government lost interest earnings.*

Questioned Costs: Multiple Grants: Cash Management = Estimated lost interest earnings of \$170,300

DWD Response and Corrective Action Plan: DWD agrees to reimburse the federal government for appropriate lost interest. However, the auditors' questioned costs represent estimated interest costs based upon a series of

assumptions regarding transaction processing dates and reporting categories, rather than actual interest calculations used by the State Controller's Office in the Wisconsin Department of Administration to complete its final annual reconciliation with the U.S. Treasury. In order to determine the actual amount of the FY 1997-98 interest liability, DWD and the State Controller's Office will analyze each transaction initially reimbursed 100 percent with federal funds and compare the actual processing dates with the corresponding state match transaction dates, in accordance with requirements specified by the Federal Cash Management Improvement Act. DWD staff will review and revise current procedures to draw the appropriate federal share of expenditures.

Child Care Program

In order to ensure that federal reimbursement is requested in a timely manner, DWD uses the cash management system to automatically draw federal funds for expenditures recorded under the child care program. However, the cash management system does not initiate drawdowns of federal funds when transactions are entered without federal reporting categories.

During FY 1997-98, DWD staff recorded a child care expenditure transaction totaling \$2,353,950 without a federal reporting category and, therefore, the State did not receive federal reimbursement through the cash management system. As a result, state funds temporarily subsidized the federal child care program, resulting in lost interest earnings to the State.

State agencies are expected to perform monthly reconciliations of cash management system records to grant expenditure records to ensure that the State receives federal reimbursement in a timely manner. However, DWD does not perform monthly reconciliations and did not become aware of this transaction until working on a year-end reconciliation, approximately eight months after the expenditure was initially recorded. We estimate that the State lost over \$77,000 in interest earnings between the date the expenditure was recorded and the date the error was identified. The federal government generally will not reimburse a state for lost interest when the state is at fault for failing to make a timely claim.

FINDING WI-98-9: We recommend the Wisconsin Department of Workforce Development reconcile cash management system records to grant expenditure records monthly to ensure that the State receives federal reimbursements in a timely manner.

Questioned Costs: Child Care Mandatory and Matching Funds of the Child Care and Development Fund (catalog #93.596): Cash Management = None

DWD Response and Corrective Action Plan: DWD agrees with the recommendation. DWD staff will review this activity each month and promptly make correcting entries to draw federal funds on a timely basis.

Duplicate Reimbursements

DWD charges most expenditures to federal grants as the costs are incurred. However, DWD also incurs costs that apply to more than one federal grant program and quarterly allocates these costs to the affected federal programs. DWD manually draws federal grant funds after these allocations have been completed.

During FY 1997-98, DWD established a joint cost project on the State's cash management system for the Temporary Assistance for Needy Families (TANF) grant. DWD automatically received federal reimbursement through the cash management system when it charged expenditures to the joint cost project. However, DWD also continued to manually draw federal TANF funds as the quarterly cost allocations were completed. As a result, during FY 1997-98, DWD requested and received reimbursement twice for the same allocated costs totaling \$813,614 from the FY 1996-97 award and \$4,285,810 from the FY 1997-98 award. In addition, DWD received duplicate reimbursements during FY 1998-99 totaling \$278,637.

Typically, we would question costs for duplicate reimbursements requested and received by state agencies. However, under the TANF program, states are allowed to draw federal funds in proportion to the federally funded portion of total TANF expenditures, taking into account state maintenance of effort expenditures. We performed an analysis of DWD's draws and found that the cumulative amount of federal TANF funds drawn during FY 1997-98, including the amounts drawn under the joint cost project, was in the proper proportion to state maintenance of effort expenditures incurred during that time period. Therefore, the total amount of federal reimbursements received during our audit period was reasonable, DWD's duplicate reimbursement requests did not negatively affect the federal government, and we do not question any costs.

DWD no longer manually requests federal reimbursement for joint costs and no longer receives duplicate reimbursements. However, DWD needs to adjust its accounting records to ensure that federal reimbursements previously received are recorded in the proper accounts.

FINDING WI-98-10: *We recommend the Wisconsin Department of Workforce Development adjust its detailed accounting records to properly record federal reimbursements received under the Temporary Assistance for Needy Families program.*

Questioned Costs: Temporary Assistance for Needy Families (catalog #93.558):
Duplicate Reimbursements = None

DWD Response and Corrective Action Plan: DWD agrees with the recommendation. Effective July 1, 1998, procedures were revised to eliminate the manual draws.

Coding Expenditures to Cost Pools

Federal rules require DWD to charge expenditures directly to federal programs, if possible, or to cost pools from which costs are to be allocated to federal and state programs in a fair and equitable manner. DWD records costs that cannot be charged directly to individual federal programs to cost pools and allocates those costs using several methods, such as the DES time study method and the joint income maintenance cost allocation method. The DES time study method is used to allocate salary, fringe benefits, and other costs to all programs administered by DES based on division staff time spent on the programs, while the joint income maintenance cost allocation method is used to allocate computer services and other costs for the Client Assistance for Re-employment and Economic Support (CARES) system to income maintenance programs based on the number of these program's cases on the CARES system. The income maintenance programs are the TANF, Child Care, Food Stamps, and Medical Assistance programs.

We reviewed expenditures charged to the two cost pools in order to determine whether the costs were allowable. We determined that, due to an apparent oversight, DWD assigned to the DES time study cost pool, rather than the joint income maintenance cost pool, two expenditures totaling \$31,851 for maintenance and modification services of the CARES system and for personal computer leases. Because of this incorrect coding, DWD over-allocated costs to some federal grants, while under-allocating costs to other federal grants, as shown in Table 1.

We question the amounts that were overcharged to the federal grant programs.

FINDING WI-98-11: As noted, DWD assigned costs to the wrong cost pool due to apparent oversight. *We recommend the Wisconsin Department of Workforce Development take more care when charging expenditures to federal grants and cost pools to ensure they are appropriate.*

Questioned Costs: State Administrative Matching Grants for Food Stamp Program (catalog #10.561, award #4S2518 ET 100% Program Code 81): Coding Expenditures to Cost Pools = \$443

State Administrative Matching Grants for Food Stamp Program (catalog #10.561, award #4S2523 FSP 50% Fraud Program Code 76): Coding Expenditures to Cost Pools = \$192

Temporary Assistance for Needy Families (catalog #93.558, award #G9701WITANF): Coding Expenditures to Cost Pools = \$3,353

Child Support Enforcement (catalog #93.563, award #G9704WI4004): Coding Expenditures to Cost Pools = \$1,078

Refugee and Entrant Assistance—State Administered Programs (catalog #93.566, award #G97AAWI5100): Coding Expenditures to Cost Pools = \$1,835

Table 1

Department of Workforce Development
Over and Under Allocations

<u>Federal Program</u>	<u>Catalog Number</u>	<u>Federal Award Number</u>	<u>Overcharge/ (Undercharge)</u>
State Administrative Matching Grants for Food Stamp Program	10.561	4S2514FSP Admin Program Code 41	(\$ 949)
State Administrative Matching Grants for Food Stamp Program	10.561	4S2518 ET 100% Program Code 81	443
State Administrative Matching Grants for Food Stamp Program	10.561	4S2523 FSP 50% Fraud Program Code 76	192
State Administrative Matching Grants for Food Stamp Program	10.561	4S2519 ET 50% Program Code 82	(155)
Temporary Assistance for Needy Families	93.558	G9701WITANF	3,353
Child Support Enforcement	93.563	G9704WI4004	1,078
Refugee and Entrant Assistance—State Administered Programs	93.566	G97AAWI5100	1,835
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	G9701WICCDF	1,165
Medical Assistance Program	93.778	059705WI5048	(4,385)

Child Care Mandatory and Matching Funds of the Child Care and Development Fund (catalog #93.596, award #G9701WICCDF): Coding Expenditures to Cost Pools = \$1,165

DWD Response and Corrective Action Plan: DWD agrees with the recommendation.

Job Training Partnership Act Cluster

The Job Training Partnership Act (JTPA) and Employment and Training Assistance—Dislocated Workers programs are administered by DWD. DWD uses a portion of the JTPA funds for administrative activities but subgrants the majority of the JTPA funds to two other state agencies and 17 service delivery areas (SDAs). We have concerns that some of the reports DWD submitted to the federal government during calendar year 1998 contained erroneous information and that DWD does not have procedures in place to ensure cash advances to its SDAs are reasonable.

Federal Reporting

DWD is required to submit to the federal government the JTPA Title II Quarterly Status Report (QSR), Worker Adjustment Formula Financial Report (WAFFR), and Dislocated Worker Special Project Report. These reports provide allotment, expenditure, and participant information for Titles II and III of the JTPA program. Much of the underlying subrecipient expenditure information that is included in the reports is submitted by SDAs to DWD in the form of monthly financial status reports (FSRs). DWD summarizes information from these FSRs and prepares the Expenditures and Projections Reports, which are, in part, used to prepare the various reports required to be submitted to the U.S. Department of Labor (DOL).

DWD needs to take steps to ensure federal reports are accurately prepared. We noted that the underlying expenditures and projections reports contained various errors. These errors, along with others, resulted in DWD including inaccurate information in the reports it submitted to DOL. For example:

- DWD did not update the SDA Level numbers on the program year 1996 QSR for June 30, 1998 to reflect activity from April through June 1998, but instead reported the same numbers contained in the March 31, 1998 report. As a result, for example, Title IIC SDA Level administration expenditures were reported as \$154,706 but, based on available information, should have been reported as \$287,968;
- DWD incorrectly reported a transfer between Title IIB and Title IIC on the June 30, 1998 program year 1995 QSR, understating the transfers out of Title IIB by \$32,400 and affecting other amounts in the report that are based on the transfer;
- DWD overstated State Education Administration expenditures by \$11,443 and understated State Education Coordination expenditures by the same amount on the final program year 1994 QSR; and
- the QSR, WAFFR, and Dislocated Worker Special Project Reports that DWD submitted to DOL for the quarters ended March, June, and September 1998 contained some information as of December 1997, rather than updated information as of the end of each quarter.

Some of these errors may have been due to employee turnover, while other errors appear to be due to miscommunication between staff and insufficient supervisory review. Some of the errors were corrected on subsequent reports because the amounts reported are cumulative in nature. However, DWD should file a revised June 30, 1998 WAFFR because that report was the last report filed for program year 1995 Title III and contained errors that were not corrected on a subsequent report.

FINDING WI-98-12: *We recommend the Wisconsin Department of Workforce Development ensure that federal reports for the Job Training Partnership Act program are accurate and complete. In addition, we recommend the Department submit a revised final program year 1995 Title III Worker Adjustment Formula Financial Report for the period ending June 30, 1998.*

Questioned Costs: Job Training Partnership Act (catalog #17.250): Federal Reporting = None

Employment and Training Assistance—Dislocated Workers (catalog #17.246): Federal Reporting = None

DWD Response and Corrective Action Plan: DWD agrees with the recommendations and will review and correct the appropriate federal reports.

Advances to Subrecipients

As of June 30, 1998, DWD had advanced \$3.1 million in JTPA funds to the 17 SDAs. Federal cash management rules require the State to minimize the time elapsing between the transfer of funds to its subrecipients and their disbursement of these funds. DWD's policy is to limit advances requested by its subrecipients and to annually monitor subrecipients by reviewing a selected month's cash balances and expenditures to ensure the requested advances did not create excess cash. DWD's JTPA policies and procedures manual defines excess cash as "the average daily cash balance maintained that exceeds \$10,000 or three days' average expenditures, whichever is greater."

For the past two years, DWD's own annual review of subrecipient cash advances identified several SDAs that had excessive cash balances. For example, DWD determined that the Western Wisconsin Private Industry Council (PIC) maintained an overall cash balance of \$169,392 for the month of September 1998, which exceeded three-day average expenditures of \$13,289. The effect of this is to have the State and the federal government temporarily subsidize the SDA. While DWD instructed the SDA to limit its requests for cash advances, we believe DWD needs to take additional steps throughout the year to ensure subrecipients comply with cash advance policies.

For example, we would have expected DWD to monitor cash advances and require SDAs to justify their requests for cash advances by documenting that their average daily cash balance is within \$10,000 or three days' average expenditures. However, DWD does not require this documentation and appears to remit to SDAs any amount

requested, regardless of actual cash needs, as long as the subgrant award limits are not exceeded at the time of the request. For example, during our audit, we found that:

- DWD remitted \$53,830 for a specific subgrant to the Western Wisconsin PIC on July 8, 1998, even though records show that all of these funds were not spent for at least three months;
- DWD, on the same request as the first example, advanced \$73,101 for a different subgrant, even though records indicate that the subgrant's three days' average expenditures over the subsequent month was only \$3,114; and
- for the Southeastern Wisconsin PIC, DWD granted an advance of \$266,000 on February 6, 1998. Records show that this PIC did not spend the advance within three days and that three weeks later, this PIC still maintained \$65,626 of this advance on hand.

FINDING WI-98-13: *We recommend the Wisconsin Department of Workforce Development ensure Service Delivery Areas comply with department policy that cash advances are not to exceed \$10,000 or three days' average expenditures, whichever is greater.*

Questioned Costs: Job Training Partnership Act (catalog #17.250): Advances to Subrecipients = None

Employment and Training Assistance—Dislocated Workers (catalog #17.246): Advances to Subrecipients = None

DWD response and Corrective Action Plan: DWD agrees with the need to increase security of cash advances. DWD Division of Workforce Excellence (DWE) staff will improve communications with local grantee agencies by emphasizing compliance with cash advance policies and by developing an internal cash needs form to help grantees determine their maximum cash draw in accordance with cash advance policies. DWE staff will also review fiscal information pertaining to large cash invoices and determine whether the request is reasonable. Based on the results of their review, DWE staff will approve, reject, or reduce the cash invoice amounts requested.

Access to the KIDS Computer System

The Kids Information Data System (KIDS) is a tool used by state and county child support staff to collect child support payments and make the appropriate distributions. A centralized system such as KIDS is required by the federal Office of Child Support Enforcement to help states enforce the support obligations owed by absent parents to their children; locate absent parents; establish paternity; and obtain child, spousal, and medical support.

Access to KIDS Datasets

DWD uses ACF2, which is a mainframe security software package, to restrict access to KIDS computerized data, transactions, and programs. To ensure access is limited to that necessary to allow employees and contract workers to perform their job duties, DWD has appointed a security officer within the Bureau of Information Technology Services to establish access to data, transactions, and programs based upon access requests approved by supervisors or bureau directors. However, we have concerns over the access DWD has granted to KIDS datasets.

DWD has contracted with IBM Global Services to provide programming and other services for the KIDS system. In addition, Bureau of Information Technology Services staff make programming changes to KIDS programs. We selected and reviewed access to datasets that contained information for collecting child support and generating child support payments. Approximately 35 IBM Global Services staff, many of whom are programmers, and several agency programmers have write and allocate access to production datasets. According to DWD staff, each week programmers need to make changes to production programs and data to allow the KIDS system to complete processing. However, because programmers have write and allocate access to electronic data, as well as extensive knowledge of the KIDS programs, they could make unauthorized changes to data and conceal those changes. For example, programmers could change the files that contain child support payment information, which could result in unauthorized child support payments or in legitimate checks being sent to the wrong person or address.

In addition, several KIDS help desk staff have the ability to write and allocate to datasets. KIDS help desk staff should generally only update information on the system using the user update screens, and not directly change information contained in datasets. It is possible for information within the datasets to be inappropriately changed, resulting in KIDS generating fraudulent child support checks.

FINDING WI-98-14: *We recommend the Wisconsin Department of Workforce Development review all of the KIDS ACF2 resource rules and eliminate write and allocate access for programmers and KIDS help desk staff.* If all programmer access cannot be eliminated, DWD should develop effective compensating controls for DWD staff to review the changed data for inappropriate transactions.

Questioned Costs: Child Support Enforcement (catalog #93.563): Access to KIDS Datasets = None

DWD Response and Corrective Action Plan: DWD agrees with the recommendation. DWD staff of the Administrative Services Division, Bureau of Information Technology Services and the Division of Economic Support, Bureau of Child Support will review all KIDS ACF2 resource rules for programmers and KIDS help desk staff and limit write and allocate rules for datasets to the extent possible. If all access cannot be eliminated, compensating controls will be developed.

Access to KIDS Database Tables

Information contained on the KIDS database tables is managed by a relational database system called Data Base 2 (DB2). Staff are given access to authorization identifications, which allow them to update data stored in DB2 tables. Access to production database tables through the authorization identifications should not be granted to programmers and should be limited only to employees who need the access to complete their job duties.

We identified five authorization identifications that allow those with access to change data in the database tables. We found DWD and IBM Global Services programmers have the ability to use some of those authorization identifications to make changes to data. Programmers with such access could make and conceal unauthorized changes to data that could result in KIDS generating fraudulent checks. In addition, we identified DWD and county child support employees with access to authorization identifications that allow them to access data that are not necessary to perform their job duties. DWD should take steps to grant these employees access to authorization identifications that are more restrictive.

FINDING WI-98-15: To protect the integrity of KIDS data and output, *we recommend the Wisconsin Department of Workforce Development review access to authorization identifications and eliminate programmer and other excessive access to KIDS through the DB2 authorization identifications.*

Questioned Costs: Child Support Enforcement (catalog #93.563): Access to KIDS Database Tables = None

DWD Response and Corrective Action Plan: DWD agrees with the recommendation. Bureau of Information Technology and Bureau of Child Support staff will review access to authorization identifications and limit access to what is needed to perform job duties.

Access to KIDS User Input Screens

Access granted to update and query KIDS information should be limited to that access necessary for staff to perform their job duties. Child support supervisors are responsible for adjusting access when staff job duties change or are eliminated.

Supervisors assign KIDS worker groups to state and county child support staff based on staff job duties. Individual worker groups control the screens users can read or update in KIDS. Worker groups have been established separately for state staff, county child support agency staff, and county clerk of court staff.

We reviewed user worker groups for DWD child support staff and contract workers and expressed concern to DWD staff about the amount of access granted to some employees. For example, seven contract workers in the Bureau of Child Support were given access to a worker group that grants update access to virtually every input screen within KIDS.

A more restrictive or newly created worker group that better fits the users' job duties could be assigned to these staff to lower the risk of inappropriate transactions in KIDS.

Recently, the Bureau of Child Support began requiring its supervisors to review access for each of their employees and adjust it if necessary. However, the review is not yet complete. Access to KIDS for county child support staff is granted by the county supervisors. DWD has not reviewed this access or requested that counties review the access. However, Bureau of Child Support staff plan to draft a document that they will distribute to county child support supervisors requiring them to review and certify KIDS access for county child support staff.

FINDING WI-98-16: *We recommend the Wisconsin Department of Workforce Development continue its efforts to review user access to KIDS and limit access only to the level necessary for staff to complete their job duties. We also recommend the Department periodically review KIDS user access to ensure it is appropriate.*

Questioned Costs: Child Support Enforcement (catalog #93.563): Access to KIDS User Input Screens = None

DWD Response and Corrective Action Plan: DWD agrees with the recommendation. The Division of Economic Support, Bureau of Child Support has begun a review of all staff to determine the access to KIDS for each staff person. The review will determine whether each person has the appropriate level of access and will result in an adjustment to the security level as required. The Bureau of Child Support will prepare a Division of Economic Support Administrator's Memo to be sent to all state and county agencies that have access to KIDS. A list of all staff with access, and the level of access, will be provided with a requirement that access for each staff be reviewed and adjusted if necessary. All agencies will be required to return the completed review to the Bureau of Child Support with a justification for the approved security level.

Prior Audit Follow-up

As part of our current audit, we followed up on DWD's progress in addressing Findings WI-97-6 through WI-97-9 included in our prior single audit report (98-12). DWD addressed concerns related to building rental interest and CARES system tables for eligibility determinations. We do not repeat our prior audit finding related to combined wage claims. However, DWD has not addressed concerns related to its public assistance cost allocation plan.

Public Assistance Cost Allocation Plan

With the transfer of certain federal programs, such as food stamps and child support enforcement, to DWD on July 1, 1996, DWD became a public assistance agency. As a public assistance agency, DWD is required to seek approval for its public assistance cost allocation plan from the U.S. Department of Health and Human Services' Division of Cost Allocation (DCA). The public assistance cost allocation plan includes narrative

descriptions of procedures to be used by DWD to distribute administrative costs to various federal and state programs, including public assistance programs. In our prior audit, we reported that DWD had submitted its public assistance cost allocation plan but that it had not obtained DCA approval for its procedures to allocate costs to federal and state programs (Finding WI-97-6).

As discussed in our prior single audit report, the delay in approval appeared to be due to problems with procedures for allocating costs related to the 72 Job Centers located throughout Wisconsin, and Bureau of Finance costs. DWD staff told us that they have discussed these concerns with DCA staff, that DCA staff visited the Rock County Job Center, and that these prior-audit concerns are no longer an issue.

In February and March 1999, DWD submitted additional revisions to its proposed cost allocation plan. As of June 15, 1999, DWD has not been formally contacted by DCA regarding the proposed plan.

We reviewed and tested DWD's cost allocations for FY 1997-98. DWD allocated costs to federal grants in accordance with its originally proposed plan for FY 1997-98.

FINDING WI-98-17: *We recommend the Wisconsin Department of Workforce Development continue to negotiate with the federal Division of Cost Allocation to resolve any issues delaying approval of the Department's public assistance cost allocation plan.*

Questioned Costs: Multiple Grants: Public Assistance Cost Allocation Plan = None

DWD Response and Corrective Action Plan: DWD agrees with the recommendation. Since the original cost allocation plan submission on June 28, 1996, DWD has been engaged in the process of negotiating with DCA in order to obtain its approval for the DWD public assistance cost allocation plan. DWD staff believe the three most recent submissions (February 16, 1999; March 31, 1999; and June 8, 1999) reflect an acceptable cost allocation methodology in accordance with the federal requirements previously specified by DCA. DWD staff will continue to conduct negotiations and submit whatever additional information might be requested in order to obtain federal approval. DCA's written response to recent DWD plan revisions should be forthcoming in the near future.

Building Rental Interest

DWD occupies space in several state-owned buildings constructed or acquired before October 1, 1980. To allow state agencies to comply with OMB Circular A-87, which prohibits charging interest to federal grants related to buildings constructed or acquired before October 1, 1980, the Wisconsin Department of Administration calculates and obtains federal approval of space rates that exclude interest and other unallowable costs and notifies state agencies of the federally approved space rates.

During our FY 1995-96 and FY 1996-97 audits, we reported that DWD did not take steps to ensure that interest and other unallowable costs related to buildings constructed or acquired before October 1, 1980, were not charged to federal grants. In our prior audit report, we recommended DWD use the federally approved space rates provided by the Department of Administration to charge rent costs to federal grant programs and questioned \$93,905 of unallowed interest charged to various grant programs (Finding WI-97-7).

DWD implemented its corrective action plan and during March and April 1999 returned \$93,905 to the federal government, representing unallowed interest costs charged to federal grants during FY 1996-97. In July 1998, DWD adjusted accounting records to remove unallowed interest previously charged to federal grants during FY 1997-98. DWD ceased charging such interest to federal grants effective for FY 1998-99. The federal government has yet to contact DWD to resolve the FY 1995-96 questioned costs, which primarily affect U.S. Department of Labor grants.

CARES System Tables for Eligibility Determinations

CARES system tables are used throughout the eligibility determination and benefit calculation process to determine whether a client is eligible for assistance and to calculate the benefit amount. For our FY 1995-96 audit, we reported that DWD did not update the necessary CARES table when the federal minimum wage increased on October 1, 1996. We reported a similar concern in our FY 1996-97 audit report because DWD did not update the CARES table when the federal minimum wage increased on October 1, 1997 (Finding WI-97-8).

According to federal regulations (7 CFR 273.5), students are not eligible for food stamps unless certain criteria are met. One of the ways in which a student can be eligible for food stamps is to be employed for a minimum of 20 hours and to be paid an equivalent of the federal minimum wage times 20 hours for such employment. The federal minimum wage increased from \$4.75 per hour to \$5.15 per hour on October 1, 1997. In our prior review of the food stamps eligibility parameter table, we found that the CARES system table listed a student's minimum wage for a 20-hour week as \$95, while the amount should have been \$103 (\$5.15 times 20 hours).

DWD implemented appropriate corrective action and updated the amount in the CARES system table for a student's minimum wage for a 20-hour week to \$103. The federal minimum wage has remained at \$5.15 per hour since October 1, 1997 and, therefore, DWD did not need to make any additional updates to the CARES table.

Combined Wage Claims

Combined wage claims are unemployment insurance claims for which the wages used to determine benefits are earned in more than one state. For these claims, benefits are paid by the "paying state," with other state(s), referred to as the "transferring state(s)," reimbursing the paying state for a prorated share of the benefits paid. If the paying state later discovers it overpaid benefits for a combined wage claim, the U.S. Department of

Labor Employment Training Handbook Number 399 states: “transferring states should be relieved of charges associated with such benefits” or credited with the charges “at the end of the quarter in which the overpayment determination is issued.” However, for our FY 1993-94 through FY 1996-97 single audits, we reported that DWD credited transferring states for overpayment only if and when the overpayments were recovered from claimants, and not at the end of the quarter in which they were determined (Finding WI-97-9).

In its final determination letter dated March 17, 1998, the U.S. Department of Labor determined that the combined wage claims finding in the FY 1993-94 single audit report is a nonmonetary administrative deficiency that remains uncorrected. In its April 17, 1998 response to the final determination letter, DWD stated that unless the Department of Labor informs DWD that it will enforce combined wage claims uniformly in all states, DWD will not seek changes to the law that would be necessary to allow DWD to credit other states prior to recovering benefit overpayments. As of June 14, 1999, the Department of Labor had not responded to DWD’s letter. We do not repeat our finding in this area.

Wisconsin Department of Workforce Development
Summary of Findings and Questioned Costs
FY 1997-98

U.S. Department of Agriculture

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Grant</u>	<u>Finding</u>	<u>Amount Questioned</u>
WI-98-11	10.561	State Administrative Matching Grants for Food Stamp Program	Coding Expenditures to Cost Pools	\$635

U.S. Department of Labor

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Grant</u>	<u>Finding</u>	<u>Amount Questioned</u>
WI-98-12	17.246	Employment and Training Assistance-Dislocated Workers	Federal Reporting	\$ 0
WI-98-13	17.246	Employment and Training Assistance—Dislocated Workers	Advances to Subrecipients	0
WI-98-12	17.250	Job Training Partnership Act	Federal Reporting	0
WI-98-13	17.250	Job Training Partnership Act	Advances to Subrecipients	0

U.S. Department of Health and Human Services

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Grant</u>	<u>Finding</u>	<u>Amount Questioned</u>
WI-98-10	93.558	Temporary Assistance for Needy Families	Duplicate Reimbursements	\$ 0
WI-98-11	93.558	Temporary Assistance for Needy Families	Coding Expenditures to Cost Pools	3,353
WI-98-11	93.563	Child Support Enforcement	Coding Expenditures to Cost Pools	1,078

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Grant</u>	<u>Finding</u>	<u>Amount Questioned</u>
WI-98-14	93.563	Child Support Enforcement	Access to KIDS Datasets	\$ 0
WI-98-15	93.563	Child Support Enforcement	Access to KIDS Database Tables	0
WI-98-16	93.563	Child Support Enforcement	Access to KIDS User Input Screens	0
WI-98-11	93.566	Refugee and Entrant Assistance—State Administered Programs	Coding Expenditures to Cost Pools	1,835
WI-98-9	93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Cash Management	0
WI-98-11	93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Coding Expenditures to Cost Pools	1,165

Noncompliance Findings Affecting Multiple Grants

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Grant</u>	<u>Finding</u>	<u>Amount Questioned</u>
WI-98-8		Multiple Grants	Cash Management	\$170,300
WI-98-17		Multiple Grants	Public Assistance Cost Allocation Plan*	0

*Repeat finding from audit report 98-12.

Inquiries regarding resolution of findings and questioned costs should be directed to the agency contact person listed in Appendix I of this report.

The University of Wisconsin (UW) System, which provides postsecondary academic education for more than 150,700 students, consists of 13 campuses, UW Colleges, UW-Extension, and UW System Administration. The 17-member Board of Regents establishes policies to govern UW System and plans for the future of public higher education in Wisconsin. Each of the 13 campuses award bachelor's and master's degrees; UW-Madison and UW-Milwaukee also confer doctoral and professional degrees. UW Colleges are 13 two-year branch campuses that offer general-education associate degrees and course credits that transfer to other degree-granting universities. UW-Extension, in cooperation with the UW campuses, provides continuing education courses in classrooms and via distance education, as well as wide-ranging public service programs to Wisconsin residents. UW System Administration is the UW President's staff to assist the Board of Regents in establishing policies; reviewing policy administration; and planning the programmatic, financial, and physical development of the system.

UW System, which had operating costs that totaled almost \$2.5 billion, disbursed \$671.8 million in federal financial assistance during FY 1997-98, including \$259.0 million for the research and development cluster and \$359.0 million for the student financial aid cluster. Federal funds were received either directly from the federal government or as a subrecipient from other organizations. As required by OMB Circular A-133, we tested compliance with laws and regulations related to the federal programs, contracts, and subgrants that UW System administered during the audit period. Our compliance review focused on two grant programs: the research and development cluster system-wide, and the student financial aid cluster at four UW campuses.

The research and development cluster, which is a major "type A" program, is defined by OMB Circular A-133 as including all research activities, both basic and applied, and all development activities that are supported at universities, colleges, and nonprofit institutions. "Research" is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. "Development" is a systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes. The research and development grants, which were administered by all 13 UW campuses, as well as by UW Colleges, accounted for 39 percent of federal funds disbursed by UW System during FY 1997-98. Of that amount, over 95 percent was disbursed by UW-Madison and, accordingly, we documented and tested controls used in administering the research and development cluster at UW-Madison and tested compliance with grant requirements for selected research and development grants at UW-Madison.

The student financial aid cluster is defined by OMB Circular A-133 as including those programs of general student assistance in which institutions participate, such as those authorized by Title IV of the Higher Education Act of 1965, as amended. It does not include programs that provide fellowships or similar awards to students on a competitive basis. The student financial aid program accounted for over 53 percent of federal funds disbursed by UW System during FY 1997-98. The student financial aid cluster is a low-risk “type A” program and, therefore, must be audited at least once every three years. The Legislative Audit Bureau audits the student financial aid cluster at the UW campuses over a three-year cycle. During the FY 1997-98 audit, the Audit Bureau audited the student financial aid cluster as a major program at UW-Madison, UW-Green Bay, UW-River Falls, and UW-Colleges. We documented and tested controls used in administering the student financial aid programs and tested compliance with grant requirements for the student financial aid programs at these four campuses.

We also followed up on progress made at all UW campuses, UW Colleges, UW-Extension, and UW System Administration on findings included in our prior single audit report (98-12). There were no findings or follow-up work to be reported for UW-Eau Claire, UW-Stout, UW-Superior, and UW-Whitewater; consequently, this report does not include a subsection for these four campuses.

Finally, at the request of the National Endowment for the Humanities, we included the Wisconsin Humanities Council in our FY 1997-98 audit of UW System and audited the Promotion of the Humanities—Federal/State Partnership grant (catalog #45.129) as a major program. The Wisconsin Humanities Council is a nonprofit organization tied to UW System through its relationship with UW-Extension, which is responsible for fiscal and personnel administration of the Council. We documented and tested controls used in administering the grant and tested federal grant requirements. There were no findings to report and, therefore, this report does not include a subsection for the Humanities Council.

University of Wisconsin-Madison

UW-Madison is the largest UW campus and one of the major research universities in the nation. It provides instruction to 39,700 students seeking undergraduate or graduate degrees and had operating costs totaling \$1.3 billion in FY 1997-98. Federal grant expenditures for FY 1997-98 totaled \$377.4 million, including \$246.9 million for the major research and development program and \$107.0 million for the major student financial aid program.

We documented and tested UW-Madison’s internal control structure used in administering the research and development program and the student financial aid program. In addition, we tested compliance with grant requirements for both programs.

Overall, UW-Madison's internal control structure appears adequate to ensure compliance with federal requirements for the research and development program and the student financial aid program. However, while reviewing requirements related to the research and development grants, we found instances of noncompliance in the areas of allowable costs, cost-share monitoring, suspension and debarment certifications, and airline ticket procurement. Our prior audit concerns regarding indirect cost rate documentation were not followed up during this audit because new rates have not been developed since our FY 1996-97 audit. Therefore, we will continue to monitor this area during future audits but offer no recommendations at this time. In the student financial aid program, we found instances of noncompliance related to the use of collection procedures, including loan assignments and collection agencies.

In addition, we followed up on UW-Madison's efforts to address concerns included in our prior single audit report for FY 1996-97 and found that UW-Madison has satisfactorily resolved concerns related to federal cash transaction reports, internal service centers, potential misuse of National Science Foundation funds, property management, and subrecipient monitoring.

Allowable Costs

Costs charged to federal grants are allowable if they are in accordance with OMB Circular A-21 or specific guidelines established by the grantor agency. One of the primary factors affecting the allowability of costs is reasonableness. Costs are considered reasonable if actions taken are consistent with established institutional policies and practices applicable to the general work of the institution.

UW-Madison departments generally initiate and approve purchases, including those charged to federal grants. As invoices are received, the departments determine whether the vendor has provided the necessary goods or services and, if appropriate, approve the invoices for payment. Staff within UW- Processing Center enter information onto the accounting system and audit purchase requisitions, invoices, and payment vouchers for reasonableness and compliance with purchasing guidelines. According to UW-Madison staff, to ensure grant financial transactions are appropriate, department staff also receive and review monthly reports, which provide each account's beginning balance, expenditures, receipts, and ending balance.

However, during our FY 1997-98 review of 60 federal expenditures, we identified the following unallowable expenditures that were processed by UW-Madison and not identified by department or UW- Processing Center staff as being inappropriate:

- UW-Madison twice paid a subcontractor's invoice for approximately \$6,538 and charged both payments to a federal grant from the National Aeronautics and Space Administration's Marshall Space Flight Center. Although this double-payment resulted in the subcontractor's contract amount being exceeded, the error was not detected until our audit.

- UW-Madison purchased a computer for \$8,321 with funds from the Polar Program (CFDA #47.078) but did not record it as a capital expenditure. Although the grant expenditure is allowable, by recording it as a supplies and services expenditure, \$8,321 was incorrectly included in the indirect cost base. Considering an indirect cost rate of 24 percent for this particular grant, we estimate that approximately \$1,997 in indirect costs were incorrectly charged to the federal grant. In addition, UW-Madison did not properly track this item for inventory purposes because of the recording error. According to department staff, this item was originally recorded as a capital expenditure at the department level, and the subsequent change made by central processing staff was not communicated to them.
- UW-Madison paid and charged a federal Department of Health and Human Services—National Institutes of Health grant for the purchase of a one-way airfare ticket, which cost \$438, although the employe already had a round-trip ticket. The employe purchased the one-way ticket on another airline to return to Madison approximately four hours earlier than the original round-trip ticket would have allowed, and forfeited the second half of the round-trip ticket. Although the additional ticket was approved by UW-Madison, this expenditure appears unreasonable.

FINDING WI-98-18: These three expenditures resulted in federal grants being charged \$8,973 in unallowable direct and indirect costs. To ensure expenditures are reasonable, we recommend the University of Wisconsin-Madison consider whether the identified errors were isolated instances or the result of procurement deficiencies, and take the appropriate action.

Questioned Costs: National Aeronautics and Space Administration’s Marshall Space Flight Center (no catalog, award #NCC-8-129): Allowable Costs = \$6,538

Polar Program (CFDA #47.078): Allowable Costs = \$1,997

Department of Health and Human Services—National Institutes of Health grant (no catalog, award #N01-EY-0-2130): Allowable Costs = \$438

UW-Madison Response and Corrective Action Plan: The identified errors have been investigated and were determined to be isolated instances, not the result of system or procedural deficiencies. UW-Madison has the following comments regarding each specific finding:

- For the first expenditure identified above, in which the subcontractor’s invoice was originally charged to the federal account twice, only one check was cashed by the subcontractor; the other check has been refunded back to the federal account. We

believe the double charge was an isolated instance and occurred at a time when the grant's principal investigator was changing. This change in principal investigator delayed the review and payment of the first invoice, which caused the subcontractor to add those same costs to the next invoice. Since the dates and amounts on the following invoice were different, our accountant and the principal investigator did not initially catch this error. Current policy and procedures for subcontractor invoices require approval by the grant accountant and the principal investigator prior to payment.

- We have investigated the second expenditure identified above to determine why the transaction coding was changed from capital to supplies and found it was due to human error. The requisition listed a number of items that, when assembled, made a computer, but the description of some items could, and did in this instance, lead reviewers to believe the items were peripherals and not capital equipment. The transaction coding has been changed to capital equipment; the Property Office is in the process of adding this item to the equipment inventory; and the indirect costs have been corrected.
- We believe the circumstances surrounding the third expenditure identified above were unusual and that travelers returning to the University within a few hours of their scheduled departure would fly standby, not purchase one-way tickets on other airlines. However, because it would be difficult to document that the traveler's early return to the University benefited only this specific project, we have transferred the charge to a nonfederal source of funds.

Cost-share Monitoring

UW-Madison administers several federal grants that require the State to share in the overall project cost by having nonfederal sources take responsibility for a certain level of expenditures. For example, UW-Madison must finance from nonfederal sources expenditures equal to at least 1 percent of federal expenditures from the National Science Foundation. If a specific cost-share requirement is identified in the grant agreement, however, that requirement overrides the general 1 percent requirement.

As part of our current audit, we reviewed UW-Madison's procedures for ensuring required cost-share amounts are met. According to UW-Madison staff, cost-share requirements are generally met with employees' salaries, fringe benefits, and related indirect costs. However, cost-share requirements are occasionally met with other types of expenditures, and it is the individual department's responsibility to ensure the requirement is met. We found that in these instances, UW-Madison does not have a central procedure to monitor the departments' progress in reaching the required amounts, which may result in cost-share requirements being overlooked and federal funds being questioned if the necessary nonfederal expenditures are not incurred.

In particular, we noted a National Science Foundation grant that required a specific cost-share amount of \$2.15 million over the five-year project period. However, with approximately one year remaining for this project, UW-Madison reported cost-share expenditures of only \$465,400. During our audit fieldwork, UW-Madison staff indicated that an additional \$511,000 in nonfederal expenditures was incurred by grant subcontractors and could be used to meet the cost-share requirement. Although National Science Foundation staff stated that UW-Madison has until the end of the five-year project period to meet the requirement, UW-Madison may need to incur significant nonfederal expenditures in a relatively short time period or return federal funds to the National Science Foundation if the requirement is not met.

FINDING WI-98-19: To ensure cost-share requirements are met, *we recommend the University of Wisconsin-Madison develop and implement a systematic approach to identify and monitor all federal cost-share requirements.*

Questioned Costs: Multiple Grants: Cost-share Monitoring = None

UW-Madison Response and Corrective Action Plan: UW-Madison does have a systematic approach for identifying and monitoring federal cost-share requirements. UW-Madison tries to limit cost-share expenditures to salaries, related fringe benefits, and indirect costs. At the time of an award, all required cost-share information is put on our Effort Reporting System. As faculty and staff certify effort, the related cost-share expenditures are captured on various reports, including one report that documents our National Science Foundation cost sharing.

The grant identified during the audit is a unique project that requires an extraordinary amount of cost sharing from a variety of sources, including cooperating institutions. In situations such as this, documentation for cost-share requirements that do not result from salary effort is delegated to the appropriate Dean's office and department to record. Occasionally, all information on projects that require this volume of cost sharing does not come together until the end of the project. This specific project does not end for another year.

Suspension and Debarment Certifications

According to OMB Circular A-110, nonfederal entities are prohibited from contracting with or making subawards with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in federal assistance programs or activities. In addition, contractors receiving individual awards for \$100,000 or more, and all subrecipients, must certify that the organization and its principals are not suspended or debarred.

During our FY 1997-98 audit, we found that suspension and debarment certifications were not obtained from vendors other than subrecipients. While the standard UW-Madison subrecipient contract includes a clause in which the

subrecipient certifies it has not been suspended or debarred from contracting with the federal government, there is no such certification in vendor contracts for more than \$100,000 or on the standard purchase order that is signed by vendors.

FINDING WI-98-20: Therefore, we recommend the University of Wisconsin-Madison obtain a suspension and debarment certification from all vendors with contracts in excess of \$100,000.

Questioned Costs: Multiple Grants: Suspension and Debarment Certifications = None

UW-Madison Response and Corrective Action Plan: UW-Madison agrees with the recommendation. UW-Madison's Purchasing Services Department is currently updating internal procedures to include a request for completion of the suspension and debarment certification form, when required.

Airline Ticket Procurement

UW System policy requires UW campuses to obtain quotes from at least two travel agencies when round-trip airfare exceeds \$500. This requirement is intended to ensure departments use the lowest available commercial airfare and that grant expenditures are reasonable, as required by OMB Circular A-21. During our prior audit test of ten travel vouchers, we found that only two vouchers had documentation of the two required quotes. We recommended and UW-Madison agreed (Finding WI-97-17) that departments should comply with the UW System policy to obtain at least two price quotes when airfare exceeds \$500.

UW-Madison provides departments with updated travel requirements each year and, according to UW-Madison staff, periodically reviews proper airline ticket procurement procedures with department staff. However, in our follow-up review, we found that 16 out of 17 travel vouchers did not have documentation of two price quotes for FY 1997-98.

FINDING WI-98-21: Therefore, to ensure departments use the lowest available airfare, we recommend the University of Wisconsin-Madison identify departments violating the University of Wisconsin System policy to obtain at least two price quotes when airfare exceeds \$500 and provide explicit instructions to promote compliance with the requirement.

Questioned Costs: Multiple Grants: Airline Ticket Procurement = None

UW-Madison Response and Corrective Action Plan: UW-Madison agrees with this recommendation and will again notify its departments of their responsibility to comply with the UW System travel regulations.

Indirect Cost Rate

When funding university-based research projects, the federal government provides reimbursement for two types of costs: 1) the direct costs of conducting research, such as faculty salaries and laboratory supplies; and 2) the indirect costs to support research, such as administrative and facility operations and maintenance costs. In FY 1995-96, UW-Madison negotiated a general indirect cost rate of 44 percent with the U.S. Department of Health and Human Services for FY 1996-97 through FY 1999-2000. We are required by OMB Circular A-133 to review the development of the indirect cost rate as part of the A-133 audit. During our prior A-133 audit, we recommended that UW-Madison take steps to better document the calculation and negotiation process for its indirect cost rate (Finding WI-97-11).

Though the indirect cost rate calculation is complex, a university can establish a fair and defensible rate if it documents and accurately categorizes all costs, uses reasonable methods of allocating indirect costs, and ensures that only allowable costs are included in the rate. OMB Circular A-21 states that accounting practices must support the accumulation of costs and must provide adequate documentation to support costs charged to sponsored agreements. In addition, the Department of Health and Human Services' *Review Guide for Long-Form University Indirect Cost Proposals*, which is a guide for educational institutions preparing the indirect cost rate proposal, states that negotiation workpaper files should contain sufficient documentation, such as file notes, schedules, and interview notes, to clearly show:

- what aspects of the proposal were reviewed;
- what significant aspects of the proposal were not reviewed and why;
- what adjustments were made to the proposal and the reasons for the adjustments;
- how the approved rates were computed and negotiated;
- how the cost savings were computed; and
- required certifications and disclosure statements.

As part of our prior review of the indirect cost rate calculation, we found UW-Madison did not maintain sufficient documentation of the overall process. For example, we found the appropriateness of costs included in various cost pools could not be readily evaluated due to the lack of supporting documentation. In addition, UW-Madison was unable to explain or provide supporting documentation for some expenditure transfers between cost pools. We did not believe the areas in which supporting documentation was lacking would materially affect the negotiated rate and, therefore, did not identify any questioned costs. However, we noted that without sufficient documentation, staff responsible for completing future indirect cost rate proposals may have a difficult time understanding or reproducing this complex process.

During our FY 1997-98 audit fieldwork, UW-Madison staff were beginning to compile information to develop the indirect cost rate for FY 2000-01 through FY 2003-04. We were unable to review preliminary indirect cost rate information or supporting documentation because of the early stages of this work. Since UW-Madison will not complete this calculation until December 1999 and will not negotiate the new indirect cost rate with the Department of Health and Human Services until January 2000, we make no recommendation at this time but plan to review documentation for new indirect cost rates during future audits.

Loan Assignments

Federal regulations for the Perkins Loan Program specify that an institution may assign defaulted loans to the U.S. Department of Education when specified criteria have been met: the institution has been unable to collect the loan despite complying with due diligence procedures; the amount of the borrower's account is \$25 or greater; and the loan has been accelerated, which means the delinquent borrower has been notified that the entire loan amount is due at once. Although federal regulations do not specify how long institutions may keep defaulted loans before assignment, good loan management practices require institutions to make reasonable and timely collection efforts, then assign the loans when these efforts are fruitless.

UW-Madison has an assignment policy, but we have concerns as to whether this policy provides adequate guidance to staff members. UW-Madison's assignment policy states that loans should be assigned when uncollectible and that when determining whether to assign a loan, the collector should consider the age of a loan, location of the borrower, assets of the borrower, and the borrower's death or disability. However, the policy does not provide sufficient guidance as to how these factors should be applied or what general parameters should be used. For example, when evaluating the age of a loan, the UW-Madison policy does not distinguish between loans in which judgments have been obtained against the borrowers, and on which UW-Madison is, therefore, more likely to collect, and loans in which judgments have not been obtained.

In addition, UW-Madison staff stated that, in general, they begin considering a loan for assignment when it has been in default for seven years. However, during our FY 1997-98 audit, we identified defaulted loans at UW-Madison, UW-Green Bay, and UW Colleges that have been delinquent for more than seven years and could have been assigned to the U.S. Department of Education but were not. Specifically, we noted:

- out of 32 defaulted loans reviewed at UW-Madison, 7 loans had been in default for more than 8 years, and 2 other loans had been delinquent for more than 10 years;
- out of 13 defaulted loans reviewed at UW-Green Bay, 3 loans had been in default for more than 8 years, and 2 other loans had been delinquent for more than 10 years; and

- out of 7 defaulted loans reviewed at UW Colleges, 1 loan had been in default for more than 10 years.

In several of these cases, the UW institution has not received a loan payment in over five years. For example, UW-Madison has not received a payment since March 1988 for one loan. Although collection procedures likely have been exhausted on some of these loans, UW-Madison has not assigned any defaulted loans to the U.S. Department of Education since April 1997. When defaulted loans are assigned, the U.S. Department of Education is able to use collection methods that are not available to UW-Madison, such as intercepting federal tax refunds.

FINDING WI-98-22: Therefore, to ensure effective loan management practices are used, we recommend the University of Wisconsin-Madison provide additional guidance to its staff to determine when loans should be assigned, periodically evaluate defaulted loans in accordance with these criteria, and assign defaulted loans to the U.S. Department of Education in a timely manner.

Questioned Costs: Perkins Loan Program (catalog #84.038): Loan Assignments = None

UW-Madison Response and Corrective Action Plan: UW-Madison has an adequate policy for assigning defaulted loans to the U.S. Department of Education. Since the inception of this policy in 1979, UW-Madison has assigned 1,277 accounts totaling \$1,976,180 in principal, and it will be assigning more defaulted loans in the future. For the 15 accounts noted above, the audit does not provide other factors, such as loan amounts, borrower location, or borrower assets, that must be considered when identifying loans for assignment.

Collection Agencies

Federal regulations for the Perkins Loan Program require collection agencies that do not succeed in converting loans to regular repayment status after 12 months of collection activity to return the loans to the institution. Upon the return of a loan, the institution is required to attempt to collect the loan in house or place the loan with a different collection firm for an additional 12-month period. This federal requirement was intended to ensure institutions did not leave defaulted loans at collection agencies for excessive periods of time without any action being taken.

While reviewing UW-Madison, UW-Green Bay, and UW Colleges loans in default as of June 30, 1998, we identified several loans that have been with the same collection agency for many years and still remain at that collection agency. For example, we identified:

- two UW-Madison loans that have been with the same collection agency for more than ten years, and three other loans with a collection agency for more than five years;

- two UW-Green Bay loans that have been at the same collection agency for more than ten years, and one other loan with a collection agency for more than five years; and
- one UW Colleges loan that has been with the same collection agency for more than ten years.

These defaulted loans have been delinquent for a significant period of time, and payments have not been made on a regular basis. For instance, the loan of one borrower, who has made no loan payments to UW-Madison, has been with the same collection agency since June 1989. UW-Madison staff stated that once defaulted loans have been litigated, which the accounts identified above have been, the 12-month requirement no longer applies. However, allowing defaulted loans to remain at the same collection agency for long periods of time, such as ten years, is inconsistent with the federal regulations' intent of ensuring prompt and appropriate actions are taken. The age and inactivity of these defaulted loans may indicate that they should be assigned to the U.S. Department of Education.

FINDING WI-98-23: Therefore, to ensure federal due diligence requirements are met, we recommend the University of Wisconsin-Madison develop and implement procedures to ensure defaulted loans that have been litigated are returned from the collection agency in a timely manner, and necessary subsequent actions, such as assignment, are taken.

Questioned Costs: Perkins Loan Program (catalog #84.038): Collection Agencies = None

UW-Madison Response and Corrective Action Plan: UW-Madison agrees with the audit recommendation and will develop and implement a policy in this area.

Federal Cash Transaction Reports

Financial reporting is a basic grant management function. OMB Circular A-110, federal agencies, and grant agreements specify federal reporting requirements, including types of reports and due dates. In our FY 1996-97 audit, we identified concerns with the Federal Cash Transaction Reports submitted to the U.S. Department of Health and Human Services. Specifically, UW-Madison was reporting expenditures in excess of the authorized award amount on the Federal Cash Transaction Report, which is not allowed by the Department of Health and Human Services. We recommended in our FY 1996-97 audit report that UW-Madison ensure these reports are accurately prepared (Finding WI-97-10).

During our current audit, UW-Madison staff indicated they are in the process of working with federal staff to implement a new electronic reporting system, which will not allow expenditures to exceed award amounts. However, the time frame in which this system will be implemented is uncertain at this time.

Internal Service Centers

To provide specific technical or administrative services for the benefit of internal users, UW-Madison maintains internal service centers including Biotron, which provides controlled environments for biological research, and the Biochemistry Storeroom, which provides supplies and services for research activities. Internal service centers, many of which are utilized by federally funded projects, provide services to users at a predetermined rate. OMB Circular A-21 requires:

- the establishment of rates based on actual use of the service;
- a rate schedule that does not discriminate between federally and nonfederally supported activities of the institution;
- rates that are designed to recover not more than the aggregate cost of the services over a long-term period; and
- adequate documentation to support costs charged to sponsored agreements.

During our prior review of 14 internal service centers at UW-Madison, we found that 2 internal service centers—Biotron and Biochemistry Storeroom—did not maintain adequate supporting documentation for the calculated FY 1996-97 user rates. To ensure appropriate rates are charged, we recommended (Finding WI-97-12) that UW-Madison establish and implement procedures to ensure internal service centers maintain adequate documentation for the calculated user rates.

During our current audit, we found that UW-Madison was able to provide reasonable documentation for the Biotron rate, which became effective as of July 1, 1998, and for the Biochemistry Storeroom rate, which was effective as of July 1, 1997. In addition, during our current audit, we reviewed two units within the Division of Information Technology: Printing Services, which operates and provides various printing and copying machines, and Network Operations, which provides computer network capabilities and resolves problems as they arise. The Division of Information Technology was able to provide reasonable documentation for the FY 1997-98 user rates within these two units.

Potential Misuse of National Science Foundation Funds

Costs charged to federal grants must be allowable in accordance with OMB Circular A-21 or any special guidelines established by the grantor agency. In April 1996, UW-Madison received an allegation regarding the potential misuse of National Science Foundation grant funds. Specifically, the complaint alleged that employe time sheets were being manipulated by falsely increasing the number of hours worked. UW-Madison took immediate steps to investigate the allegation and transferred

\$9,488 in inappropriate expenditures from federal accounts to nonfederal accounts. However, since the federal government had not resolved the matter, we noted this incident in our FY 1997-98 audit report (Finding WI-97-13).

The National Science Foundation initiated an investigation and subpoenaed materials from UW-Madison. Subsequently, in a letter dated March 17, 1999, the National Science Foundation stated that UW-Madison's actions, including the \$9,488 transfer of inappropriate expenditures from federal to nonfederal accounts, adequately addressed this issue.

Property Management

OMB Circular A-110 prescribes standards for equipment furnished by the federal government or whose cost was charged to a federally supported project. For example, it requires UW-Madison to perform a physical inventory at least once every two years and to reconcile its results with the property records.

In prior audits, we noted concerns with the lack of a complete physical inventory and the updating of inventory records for disposed items. Specifically, we found that UW-Madison Internal Audit performs a biennial physical count of all inventory based on a statistical sample, not a complete physical count. We recommended that UW-Madison obtain written approval from the federal cognizant agency that a physical inventory based on statistical sampling is acceptable, or take steps to perform a complete biennial physical inventory (Finding WI-97-14). We also found items that had been disposed of were still recorded as existing inventory items on the inventory system. To ensure equipment disposals are recorded, we recommended that UW-Madison improve the communication and coordination between Property Control, which maintains the inventory management system, and Surplus Property Stores, which administers surplus property (Finding WI-97-15).

During our current audit, we learned that OMB Circular A-21, part J, allows for statistical sampling techniques to be used in taking physical inventories. Therefore, UW-Madison's statistical-based approach for conducting the biennial physical inventory appears reasonable and acceptable. We also noted that UW-Madison improved its property management procedures by developing written procedures in FY 1998-99 to require Surplus Property Stores staff to notify Property Control of equipment dispositions through a standard form. We tested five items that were sold by Surplus Property Stores after the new procedures were implemented and found that the items had been properly removed from the inventory system.

Subrecipient Monitoring

UW-Madison subgrants federal funds to various state and local governments, higher educational institutions, and nonprofit organizations. OMB Circular A-133 establishes several requirements for entities passing federal funds through to subrecipients,

including the requirement that the pass-through entity ensure that any state or local government, higher educational institution, or nonprofit organization expending more than \$300,000 has met the audit requirements in accordance with Circular A-133.

During prior audits, we found UW-Madison obtained copies of subrecipients' A-133 audit reports and followed up on reports it received. However, UW-Madison did not have a tracking system in place to ensure that all subrecipients subject to audit under OMB Circular A-133 submitted audit reports for the periods in which UW-Madison provided federal funds. Therefore, we recommended that UW-Madison implement a subrecipient audit monitoring system for the collection and review of audit reports (Finding WI-97-16).

In response to our previous recommendation, UW-Madison implemented a tracking system in June 1998 and has improved its procedures for ensuring that required subrecipient audit reports are obtained. UW-Madison currently maintains a database of subrecipient audit reports that should be received and notifies subrecipients when reports are overdue.

University of Wisconsin-Milwaukee

UW-Milwaukee, which provides instruction to 22,300 students seeking undergraduate or graduate degrees, had operating costs totaling \$264.7 million in FY 1997-98. Federal grant expenditures for that period totaled \$67.5 million, including \$8.5 million for the major research and development program and \$55.0 million for the major student financial aid program.

During our current audit, we followed up on UW-Milwaukee's efforts to address concerns included in our FY 1996-97 single audit report. UW-Milwaukee has satisfactorily addressed our concerns related to property management.

Property Management

The UW-Milwaukee equipment inventory system accounts for both state and federally funded equipment. OMB Circular A-110, Subpart C, prescribes inventory management standards for property furnished by the federal government or whose cost was charged to a federally supported project. For example, it requires that a physical inventory be taken and the results reconciled with property records at least once every two years. In addition, property records must be maintained accurately and must include the description, acquisition date, cost, location, use, condition, and source of funds.

During our FY 1996-97 audit, we found that UW-Milwaukee had responded to prior findings regarding property management, including completing a physical inventory of capital equipment and reconciling the physical inventory results to its inventory system. However, because of the time involved in performing the physical inventory and reconciling the inventory records, UW-Milwaukee had not yet completed its efforts.

Therefore, in FY 1996-97, we recommended (Finding WI-97-18) that UW-Milwaukee continue to give priority to its capital equipment management function and ensure that all equipment is recorded on the inventory system.

In our current audit, we found that UW-Milwaukee adequately implemented its prior audit corrective action plan by developing a new capital equipment inventory system, performing a physical inventory of all capital equipment, reconciling the physical inventory results to the inventory system and to purchase records, and updating the inventory system as necessary. We reviewed 26 items on the inventory system and found that all items included the required information: description, acquisition date, cost, location, use, condition, and source of funds.

University of Wisconsin-Green Bay

UW-Green Bay, which provides instruction to 5,400 students seeking undergraduate or graduate degrees, had operating costs totaling \$52.1 million in FY 1997-98. Federal grant expenditures for that period totaled \$13.0 million, including \$210,000 for the major research and development program and \$11.8 million for the major student financial aid program.

During our current audit, we followed up on UW-Green Bay's efforts to address concerns included in our FY 1996-97 single audit report. We noted that UW-Green Bay has taken steps to improve the timeliness of refund and overpayment deposits and is substantially in compliance with federal regulations in this area.

Refunds and Overpayments

Refunds of student payments to attend UW-Green Bay, such as tuition, fees, and housing, are due to students who withdraw during the semester. If a student receives financial aid, UW-Green Bay must calculate, in accordance with federal regulations, the portion of the refund due to the financial aid programs and credit this amount to the financial aid accounts or, in the event the student received a Stafford loan, pay the calculated amount to the lender. An overpayment occurs if a student who received financial aid to pay non-institutional costs, such as off-campus housing and other living expenses, withdraws during the semester and, therefore, is not entitled to all the funds received for non-institutional costs. The overpayment is billed to the student, and the collected amount must be deposited to the financial aid accounts. Federal regulations require that the portion of the refund or overpayment due to the financial aid programs be credited to the financial aid accounts within 30 days of the student's withdrawal or of payment by the student. Amounts due to Stafford loan lenders must be paid within 60 days of a student's withdrawal.

In our prior review of eight refunds and overpayments, we found UW-Green Bay was late in depositing the refunds and overpayments for all eight students, including one refund that was 26 days late. Therefore, we recommended (Finding WI-97-19) that UW-Green Bay ensure refunds and overpayments are deposited within the federally required time period.

In response to our concerns, UW-Green Bay established the following procedures to ensure that refunds and overpayments are deposited within the federally required time period:

- review postings and enter withdrawals on a more frequent basis;
- use e-mail rather than campus mail to speed up the process; and
- have the UW-Green Bay internal auditor review a sampling of each semester's refunds until the timeliness of refunds is found to be satisfactory.

These procedures appear to have resulted in refunds and overpayments being processed in a more timely manner. We reviewed the records for ten students who withdrew in FY 1997-98 and found UW-Green Bay was substantially in compliance with federal refund and overpayment deposits requirements.

University of Wisconsin-La Crosse

UW-La Crosse, which provides instruction to 9,100 students seeking undergraduate or graduate degrees, had operating costs totaling \$91.5 million in FY 1997-98. Federal grant expenditures for that period totaled \$26.4 million, including \$843,000 for the major research and development program and \$23.7 million for the major student financial aid program.

During our FY 1997-98 audit, we followed up on UW-La Crosse's efforts to address concerns regarding Pell grant reconciliations that were included in previous single audit reports. We found that UW-La Crosse has satisfactorily addressed our findings in this area.

Pell Grant Reconciliations

For the Pell Grant Program, UW-La Crosse completes an annual reconciliation between its Pell grant disbursement records and the most recent U.S. Department of Education Student Payment Summary report. UW-La Crosse must then submit its final Pell grant summary report and student aid report to the Department of Education by September 30 following the end of the academic year.

In prior audits, we found that UW-La Crosse had difficulty completing and submitting the annual Pell grant reconciliations by September 30. For example, UW-La Crosse reported an unexplained variance of \$12,981 in the FY 1995-96 Pell grant reconciliation, in which UW-La Crosse records reflected more expenditures than were shown on Department of Education records. Since it was possible that some Pell awards disbursed by UW-La Crosse were not reimbursed by the Department of

Education, we recommended in our FY 1996-97 audit report that UW-La Crosse continue its efforts to resolve this variance and take steps to ensure that it continues to fully and regularly reconcile its Pell Grant Program records to Department of Education information before the final submission deadline of September 30 each year (Finding WI-97-20).

During our current audit, we found UW-La Crosse has determined that the majority of the \$12,981 variance was caused by an accounting error that has subsequently been corrected. The cause of the remaining variance of nearly \$870 has not been identified. Since the amount is relatively small, UW-La Crosse staff indicated that they do not intend to further pursue their potential right to these Pell funds. We also found that UW-La Crosse successfully reconciled its FY 1997-98 Pell award records to those provided by the U.S. Department of Education by the September 30 deadline.

University of Wisconsin-Oshkosh

UW-Oshkosh, which provides instruction to 10,600 students seeking undergraduate or graduate degrees, had operating costs totaling \$98.2 million in FY 1997-98. Federal grant expenditures for that period totaled \$28.5 million, including \$286,000 for the major research and development program and \$21.9 million for the major student financial aid program.

During our current audit, we followed up on UW-Oshkosh's efforts to address concerns included in our FY 1996-97 single audit report. We noted that UW-Oshkosh has taken steps to improve controls related to log-on identifications (logon IDs); however, continued improvement is needed in the area of federal reporting.

Federal Reporting

As part of the FY 1995-96 and FY 1996-97 single audits, we recommended that for Fiscal Operation Report and Application to Participate (FISAP) reporting purposes, UW-Oshkosh directly assign segregated and special course fees that are specifically identifiable as graduate or undergraduate fees (Finding WI-97-21). Only fees that are not identifiable to a specific student group should be allocated, based on the ratio of graduate and undergraduate students for the year in which the allocation is made. We calculated, as part of the FY 1996-97 audit, that nearly \$20.4 million of \$23.2 million in total fees could have been directly assigned when calculating FISAP amounts, rather than allocated.

During our current audit, we again noted the FISAP was not prepared appropriately. UW-Oshkosh was unable to provide documentation of calculations for direct versus allocated graduate and undergraduate fees. In addition, even if direct and allocated fees were determined, UW-Oshkosh incorrectly included FY 1996-97 graduate and undergraduate fee amounts in the FY 1997-98 FISAP.

FINDING WI-98-24: Therefore, to provide accurate information to the U.S. Department of Education, we recommend the University of Wisconsin-Oshkosh submit a revised FY 1997-98 Fiscal Operation Report and Application to Participate to directly assign fees that are specifically identifiable as graduate and undergraduate, allocate those fees that are not identifiable based on the ratio of graduate and undergraduate students for the year for which the allocation is made, and include appropriate current year amounts of graduate and undergraduate fees.

Questioned Costs: Various Student Financial Aid Programs: Federal Reporting = None

UW-Oshkosh Response and Corrective Action Plan: UW-Oshkosh agrees with the recommendation. UW-Oshkosh notes that a detailed breakdown of FY 1997-98 fees was provided to the Financial Aid Office, but prior-year amounts were inadvertently included in the FY 1997-98 FISAP. The correct amounts have been reported to the U.S. Department of Education in a revised FY 1997-98 FISAP.

Multiple Logon IDs

Limited access to computerized records and systems is necessary to reduce the opportunity for errors or fraud to occur and to help detect instances when they do occur. Our prior audit review found UW-Oshkosh gave some employees two logon IDs in order to log on to the student financial aid system on one computer and gain access at another terminal. These employees also indicated they allowed student work-study employees to use their passwords to gain access to the student financial aid system. Therefore, individuals other than the employee to whom the logon ID had been assigned could modify financial aid data without proper identification of who made the changes. To provide greater accountability, we recommended that UW-Oshkosh grant each employee an individual logon ID within the student financial aid system.

During our FY 1997-98 audit, we found that UW-Oshkosh has implemented our prior audit recommendation and has limited employee access to one logon ID. We also found that student work-study employees are no longer allowed to use permanent employees' passwords but are, instead, assigned separate logon IDs.

University of Wisconsin-Parkside

UW-Parkside, which provides instruction to 4,700 students seeking undergraduate or graduate degrees, had operating costs totaling \$41.0 million in FY 1997-98. Federal grant expenditures for that period totaled \$7.0 million, including \$154,000 for the major research and development program and \$6.4 million for the major student financial aid program.

During our current audit, we followed up on UW-Parkside's efforts to address concerns included in our FY 1996-97 single audit report. We found UW-Parkside has satisfactorily addressed our concerns related to Pell award reimbursements.

Pell Reimbursement

The U.S. Department of Education's Student Financial Aids Handbook suggests that the educational institutions reconcile Department of Education reports with their Pell grant records to help ensure that all information on Pell grant awards provided to students is submitted to the Department of Education. Timely reconciliation of the information is important because the educational institutions must submit information on all eligible students for Pell grant reimbursement by September 30 following the end of an academic year.

In prior audits, we found that UW-Parkside was not performing regular reconciliations of its Pell grant records to Department of Education records and, consequently, had not identified and submitted adjustments for variances by the September 30 deadline for FY 1995-96 and FY 1996-97. For FY 1995-96, UW-Parkside did not receive full Pell grant reimbursement for 7 students but received over-reimbursement for 18 students, resulting in a net amount of \$7,471 owed to the Department of Education. For FY 1996-97, UW-Parkside did not receive full Pell grant reimbursement for 48 students but received over-reimbursement for 14 students, for a net amount of \$55,155 in Pell grant awards not reimbursed by the Department of Education.

As part of our prior audit review of the Pell reconciliations, we noted that UW-Parkside also made errors in its original calculation of Pell grant awards in several instances, including four cases in which it needed to recover amounts over-awarded to students and three cases in which it did not award the students the full amount allowed by the Pell Grant Program. Overall, we found that errors resulted because Pell awards were not adjusted for changes in student enrollment status or for transfer students who had received financial aid from their previous schools.

Therefore, in our FY 1996-97 audit report, we recommended (Finding WI-97-23) that UW-Parkside:

- take the necessary steps to ensure that financial aid transcripts and changes in student enrollment status are regularly monitored and the appropriate adjustments to Pell awards are made;
- fully reconcile its Pell grant records to information provided by the Department of Education prior to the final submission deadline of September 30 each year; and
- resolve prior-year Pell reconciliation variances.

During our current audit, we followed up on the status of prior-year variances and inquired as to the status of the FY 1997-98 Pell reconciliation. UW-Parkside has completed the necessary procedures to finalize prior-year Pell reconciliations, including obtaining the required certification from the Legislative Audit Bureau. The FY 1997-98

reconciliation of Pell awards has been completed, and no unresolved variances remain. We also tested the records of ten students who had received Pell awards in FY 1997-98 and determined that the awarded amounts were accurately calculated.

University of Wisconsin-Platteville

UW-Platteville, which provides instruction to 5,000 students seeking undergraduate or graduate degrees, had operating costs totaling \$60.8 million in FY 1997-98. Federal grant expenditures for that period totaled \$12.1 million, including \$13,000 for the major research and development program and \$11.8 million for the major student financial aid program.

During our current audit, we followed up on UW-Platteville's efforts to address concerns included in our FY 1996-97 single audit report. We found UW-Platteville has satisfactorily addressed our concerns related to student eligibility and awards and to accounting system access. However, we continue to note concerns with refund and overpayment calculations and property management issues.

Refunds and Overpayments

Refunds of student payments toward institutional costs, such as tuition, fees, and on-campus housing, are due to students who withdraw during the semester. Overpayments, on the other hand, are due from students who received financial aid to pay non-institutional costs, such as off-campus housing and other living expenses, but withdrew during the semester and, therefore, are not entitled to all the funds received for such costs. When a student withdraws, UW-Platteville must calculate, in accordance with federal regulations, the refund and overpayment amounts and determine the portion of these amounts, if any, to be paid back to the financial aid programs. During our FY 1996-97 audit, we noted concerns with UW-Platteville's refund and overpayment policies that allow students who withdraw to receive funds in excess of their incurred costs (Finding WI-97-25). This concern was again raised during our FY 1997-98 audit.

According to its financial aid disbursement policy, UW-Platteville assumes that institutional costs are first covered with financial aid funds from programs other than the Federal Family Education Loans (FFEL) program, which consists of loans from lending institutions. Therefore, if a student received aid under the Pell Grant Program and the FFEL program, the Pell funds would be applied first to the institutional costs. If institutional costs remained after the Pell funds were exhausted, FFEL funds would be used to cover these costs. Finally, if the amount of awarded financial aid exceeded institutional costs, UW-Platteville would disburse cash to the student for the remaining portion of the financial aid.

This disbursement policy minimizes the amount of non-FFEL funds and maximizes the amount of FFEL funds disbursed as cash. However, when refunds and overpayments are calculated, these two factors may result in students being overcompensated for their period of enrollment. Since federal regulations state that FFEL funds are excluded from

the overpayment calculation, overpayment amounts are based only on the amount of non-FFEL funds disbursed as cash. UW-Platteville's policy of first allocating institutional costs to non-FFEL funds minimizes the amount of non-FFEL funds disbursed as cash and, therefore, minimizes the overpayment amount due from students. In addition, refund amounts due from the institution to students are maximized because, according to federal regulations, institutions must distribute refund amounts as reimbursement first to loan programs and, if refund amounts are sufficient, then to grant programs. Therefore, upon withdrawal, the student's FFEL liability to lending institutions is reduced before other programs, such as the Pell Grant Program, are reimbursed.

Overall, the inconsistency between UW-Platteville's policies for disbursing financial aid for non-institutional costs and for distributing refunds and overpayments to financial aid programs may allow students who withdraw to receive funds in excess of their incurred costs. During the FY 1997-98 audit, we recalculated overpayments for ten students who received financial aid and withdrew during the semester. We estimated an overpayment of \$1,085 for one student, for whom UW-Platteville improperly calculated that no overpayment was necessary. As a result, the overpayment amount was not collected from the student and returned to the financial aid programs.

FINDING WI-98-25: Therefore, when disbursing financial aid, *we recommend the University of Wisconsin-Platteville apply institutional costs to financial aid programs in a manner that is consistent with federal requirements for calculating refunds and overpayments and for distributing these amounts to the various financial aid programs.*

Questioned Costs: Various Student Financial Aid Programs: Refunds and Overpayments = \$1,085 plus an undetermined amount

UW-Platteville Response and Corrective Action Plan: UW-Platteville agrees with the recommendation. The new overpayment calculation will equalize the amount of non-FFEL funds and FFEL funds disbursed as cash, which should provide a more realistic amount that is reflected as an overpayment amount.

Property Management

OMB Circular A-110, Subpart C prescribes standards for property purchased with federal funds or furnished by the federal government. For example, federal rules require UW-Platteville to maintain property records that include a description, acquisition date, cost, location, use, condition, and funding source for each piece of equipment. Federal rules also require UW-Platteville to perform a physical inventory at least once every two years and to reconcile the results to property records.

During our FY 1994-95 through FY 1996-97 audits, we identified concerns with UW-Platteville's compliance with federal property management requirements. Specifically, we noted that UW-Platteville had not:

- conducted a physical inventory of equipment since FY 1993-94;
- reconciled or updated inventory records based on the FY 1993-94 inventory count results; and
- updated the inventory system for new equipment acquisitions since January 1995.

In our FY 1996-97 audit, we again recommended (Finding WI-97-27) that UW-Platteville take steps to address these property management concerns. In response to our recommendation, UW-Platteville noted that UW System's new accounting system, which includes a property management module, may be utilized to help alleviate this concern in the future. This system, however, will not be fully implemented until FY 1999-2000 and will then be effective only if accurate and up-to-date property management information is maintained and available. During our current audit, we found that UW-Platteville has still taken no actions in this area.

FINDING WI-98-26: Therefore, *we continue to recommend the University of Wisconsin-Platteville comply with federal property management requirements, including updating its inventory system for equipment additions and deletions, performing physical inventories at least once every two years, and reconciling results to inventory records and making any necessary adjustments.*

Questioned Costs: Multiple Grants: Property Management = None

UW-Platteville Response and Corrective Action Plan: UW-Platteville agrees with the recommendation. UW-Platteville currently plans to hire a person to perform the necessary property management duties, including conducting a physical inventory and updating inventory records based on the physical inventory.

Student Eligibility and Awards

Federal regulations require that UW-Platteville review students' academic progress at the end of each academic year and determine if each student has an academic standing consistent with the campus' graduation requirements. As part of our FY 1996-97 audit, we recommended (Finding WI-97-24) that UW-Platteville implement procedures to ensure students are accurately identified when the satisfactory academic progress requirement is not being met.

This recommendation was made after identifying a student who did not meet UW-Platteville's satisfactory academic progress policy at the end of the spring 1996 semester but was awarded financial aid totaling \$2,509 for the fall 1996 semester. To monitor satisfactory academic progress, UW-Platteville uses a computer-generated academic progress report, which identifies students not meeting the academic progress requirement by placing a mark next to the students' names. This student's eligibility

was not reviewed because the computer program that generates the report did not mark the student's name. This error allowed the student, and potentially others who did not meet the satisfactory academic progress requirements, to receive financial aid.

During our current audit, we found that UW-Platteville implemented a procedure to manually review Academic Progress Report information, such as students' credits, for students who may not be appropriately identified in the report. We also tested 20 student financial aid awards and found all students met the satisfactory academic progress policy requirements.

Accounting System Access

Limited access to computerized records and systems is necessary to reduce the opportunity for errors or fraud and to help detect instances when they do occur. During our FY 1996-97 audit, we found that four employees had inappropriate access to UW-Platteville's accounting system. To ensure the integrity of accounting data and reduce the risk of improper entry or data changes, we recommended (Finding WI-97-26) that UW-Platteville implement procedures to regularly review and update accounting system access. We also recommended that for the four identified individuals, access be eliminated or revised as necessary.

Our follow-up review of accounting system access found that current employees had access to only those functions necessary to fulfill their job responsibilities. We also found that UW-Platteville had appropriately removed or revised access for individuals previously identified as having inappropriate access.

University of Wisconsin-River Falls

UW-River Falls, which provides instruction to 5,400 students seeking undergraduate or graduate degrees, had operating costs totaling \$68.4 million in FY 1997-98. Federal grant expenditures for that period totaled \$14.7 million, including \$57,000 for the major research and development program and \$14.0 million for the major student financial aid program.

We documented and tested UW-River Falls' internal control structure used in administering the student financial aid program. In addition, we tested compliance with grant requirements for the student financial aid program. Overall, UW-River Falls' internal control structure appears sufficient to ensure compliance with grant requirements for the student financial aid program. However, we identified concerns with the accuracy and completeness of information on the UW-River Falls loan collection system. We also noted concerns related to the use of collection procedures, including loan assignments, collection agencies, and late fee assessments.

Loan Collection System

During our review of Perkins loans, we frequently used information and reports from the UW-River Falls' loan collection system. To ensure loans are properly managed and collected, the loan collection system should provide accurate and complete information. However, we identified several instances in which the system generated reports with incorrect or incomplete data.

We compared the loan receivable aging report to loans we had randomly selected from the system. Even though all the borrowers we selected had not made a payment in at least ten years, we did not find any of these borrowers on a loan receivable aging report for borrowers delinquent at least five years.

UW-River Falls staff stated that the inconsistencies in data may be caused by changing dates on the loan collection system. Since the loan collection system previously did not generate bills for loans in delinquent status or for loans assigned to a collection agency, UW-River Falls would temporarily change a loan's status to "repayment" if a bill was necessary. After the bill was sent, UW-River Falls would change the loan back to the appropriate default status. This status change, however, would reset the delinquency date to the date the change was made, and the delinquent loan would not be properly reported on the loan collection system or its loan receivable aging reports. For example, if this procedure were performed one month ago for a loan that has been delinquent for five years, the loan receivable aging report would indicate the loan is only one month delinquent instead of five years.

Although campus staff stated that this procedure of changing the loan status has been discontinued, UW-River Falls has not adjusted the loan collection system to properly reflect the correct default dates. Incorrect loan information such as this may hinder loan collection efforts, because the loan receivable aging reports are used to analyze loans and determine when certain collection methods, such as assignment to a collection agency, should be used.

FINDING WI-98-27: To properly manage and collect delinquent loans, *we recommend the University of Wisconsin-River Falls determine the appropriate delinquent date for all delinquent loans on its loan collection system and make the necessary changes to ensure the system's information is accurate and complete.*

Questioned Costs: Perkins Loan Program (catalog #84.038): Loan Collection System = None

UW-River Falls Response and Corrective Action Plan: UW-River Falls agrees with the audit recommendation and will review all delinquent loan files to determine the appropriate delinquent dates and make the necessary corrections to the student loan system.

Loan Assignments

Federal regulations for the Perkins Loan Program specify that if a loan is still in default after four years of collection efforts, the institution shall continue to make annual attempts to collect from the borrower until the loan is recovered; the account, if under \$200, is to be written off; or the account is to be assigned to the U.S. Department of Education. Although federal regulations do not specify how long institutions may keep defaulted loans before assignment, good loan management practices require institutions to identify when available collection efforts have been exhausted and more powerful collection efforts are necessary. For example, when defaulted loans are assigned, the U.S. Department of Education is able to use collection methods that are not available to UW-River Falls staff, such as intercepting federal tax refunds.

Based on our review of various delinquent loan reports, we determined that UW-River Falls has at least 80 loans that have been in default for more than five years without any collections being made. Of these delinquent loans, 37 that total nearly \$59,600 in principal and interest have been in default for over ten years. Although UW-River Falls is currently preparing 32 loans for assignment, until now it had not assigned any delinquent loans to the U.S. Department of Education in at least four years.

FINDING WI-98-28: To ensure effective loan management practices are used, we recommend the University of Wisconsin-River Falls develop criteria for the assignment of loans, periodically evaluate delinquent loans in accordance with these criteria, and assign delinquent loans to the U.S. Department of Education in a timely manner.

Questioned Costs: Perkins Loan Program (catalog #84.038): Loan Assignments = None

UW-River Falls Response and Corrective Action Plan: UW-River Falls agrees with the audit recommendation. UW-River Falls will develop criteria for the assignment of loans and will periodically evaluate delinquent loans for assignment to the U.S. Department of Education in a timely manner.

Collection Agencies

Federal regulations for the Perkins Loan Program require collection agencies to return loans to institutions if they do not succeed in converting them to repayment status after 12 months of collection activity. Upon the return of a loan, the institution is required to attempt to collect the loan in house or place the loan with a different collection firm for an additional 12-month period.

We reviewed 15 loans in default as of June 30, 1998, and found 2 loans that were at the same collection agency for 16 months. In both cases, the collection agency had been unsuccessful in making any collections.

FINDING WI-98-29: To ensure federal due diligence requirements are met, we recommend the University of Wisconsin-River Falls develop and implement procedures to ensure defaulted loans assigned to collection agencies are returned to the institution within 12 months.

Questioned Costs: Perkins Loan Program (catalog #84.038): Collection Agencies = None

UW-River Falls Response and Corrective Action Plan: UW-River Falls agrees with the audit recommendation and has developed and implemented a quarterly review procedure for all accounts at a collection agency. However, this quarterly review procedure may not prevent some accounts from being at a collection agency for 1 or 2 months over the 12-month period requirement.

Late Fee Assessments

According to federal Perkins Loan Program regulations, for loans made on or after January 1, 1986, institutions are required to assess a late fee if the borrower's payment is overdue and the borrower has not filed a request for forbearance, deferment, cancellation, or postponement. Federal regulations allow a waiver of late fees for borrowers who have repaid the full amount of the past-due principal and interest balance.

During our review of five delinquent accounts, we identified one account in which these criteria for waiving late fees were not met, although \$468 in accumulated late fees had been removed. Since UW-River Falls has no written policies or procedures for removing late fees or documenting the removals, campus staff were unable to determine why these fees, in particular, were removed. We also found the UW-River Falls loan officer is able to manually eliminate late fees from the loan accounts without any type of supervisory approval or review.

FINDING WI-98-30: To ensure delinquent accounts are handled properly and consistently, we recommend the University of Wisconsin-River Falls develop and implement procedures to document the justification of late fee waivers and require at least periodic supervisory review of the removal of late fees.

Questioned Costs: Perkins Loan Program (catalog #84.038): Late Fee Assessments = None

UW-River Falls Response and Corrective Action Plan: UW-River Falls agrees with the audit recommendation. UW-River Falls will develop and implement procedures to document the justification of late fee waivers and will require supervisory review of late fee removals.

University of Wisconsin-Stevens Point

UW-Stevens Point, which provides instruction to 8,500 students seeking undergraduate or graduate degrees, had operating costs totaling \$96.9 million in FY 1997-98. Federal grant expenditures for that period totaled \$23.0 million, including \$344,000 for the major research and development program and \$21.3 million for the major student financial aid program.

During our current audit, we followed up on UW-Stevens Point's efforts to address concerns included in our FY 1996-97 single audit report. We found that UW-Stevens Point has satisfactorily addressed our concerns related to student loan collections and Pell award overpayments.

Loan Collections

During our FY 1996-97 audit, we reviewed UW-Stevens Point's procedures and records for issuing Perkins loans, reconciling and maintaining loan records, approving cancellations and deferments, assessing late fees and collection costs, collecting delinquent loans, skip tracing accounts with unknown addresses, referring loans to collection agencies, credit bureau reporting, litigating defaulted loans, and assigning loans to the U.S. Department of Education. UW-Stevens Point complied with the federal regulations except in the areas of loan collection efforts and approval of deferments.

Loan Collection Efforts – Federal regulations for the Perkins Loan Program require that all collection agencies retained by UW-Stevens Point that do not succeed in converting loans to repayment status after 12 months of collection activity return the loans to UW-Stevens Point. Upon the return of a loan, UW-Stevens Point is required to attempt to collect the loan in house, place the loan with another collection agency, or assign the loan to the U.S. Department of Education.

In our FY 1996-97 audit, we reviewed ten loans in default as of June 30, 1997, to determine if proper collection agency procedures were being followed. Of the ten loans tested, we found one that was listed on the campus loan accounting system as being at a collection agency when, in fact, the defaulted loan had been returned to UW-Stevens Point when the collection agency did not convert it to repayment status after 12 months. As a result, no additional collection efforts had been made on the loan. This error was not detected because reconciliations between collection agency records and the campus loan accounting system were not being performed. We recommended (Finding WI-97-28) that UW-Stevens Point reconcile the collection agency inventory lists with the list of loans assigned to collection agencies on the campus loan accounting system on a monthly basis.

UW-Stevens Point has adequately implemented an alternative to our FY 1997-98 recommendation by more closely monitoring its delinquent loans. We followed up on our prior audit concern by tracing selected collection agency records to the campus loan accounting system, to determine if the status of the loan in the loan system was correct

and if appropriate collection procedures were being followed. We determined that all of the selected loans had been properly placed with a second collection agency and that the status of the loans in the loan system was correct.

Deferment Approvals – Federal regulations for the Perkins Loan Program require that for a deferment to be granted, the borrower must submit documentation required by the institution demonstrating that the deferment conditions have been met. During our FY 1996-97 audit, we reviewed ten loans that had been granted deferments on or before June 30, 1997, and found one loan deferment that had been granted without proper documentation. We recommended (Finding WI-97-29) that UW-Stevens Point develop and implement procedures to ensure that proper documentation is received prior to the approval of loan deferments.

As part of our prior audit follow-up, we found that UW-Stevens Point has instructed its staff on the deferment documentation that must be maintained. We also selected ten students who received deferments in FY 1997-98 and determined that UW-Stevens Point had obtained the proper deferment documentation.

Collection of Pell Overpayments

While awarding and disbursing financial aid to students, UW-Stevens Point may occasionally overpay a student because of errors or misinformation on the student's financial aid application. Once the overpayment is discovered, the student is responsible for repaying the excess award to the university.

During our FY 1996-97 audit, we reviewed the prior-year repayment accounts for various student financial aid programs. We discovered a positive cash balance of \$3,426 in the Pell account. This balance was the result of \$1,126 collected in FY 1995-96 relating to an overpayment from the FY 1989-90 award year, and \$2,300 collected in FY 1996-97 relating to an overpayment from the FY 1993-94 award year. UW-Stevens Point personnel stated they did not return the funds because they were waiting for reimbursement from the Department of Education for other prior-year awards. Regardless of whether UW-Stevens Point was owed Pell funds by the Department of Education, the Pell overpayments should not remain in the Pell prior-year repayment account. We recommended (Finding WI-97-30) that UW-Stevens Point determine proper procedures for either returning the \$3,426 remaining in the Pell repayment account to the federal government or depositing it into the Pell account so that it may be awarded to other students.

We followed up on our prior-year audit recommendation during our FY 1997-98 audit and found that UW-Stevens Point has adequately implemented our recommendation by returning the \$3,426 in overpayments to the Department of Education.

University of Wisconsin Colleges

UW Colleges include of 13 two-year campuses located throughout the state, together with a central office located in Madison, and provide instruction to 8,900 students who are seeking associate degrees or are earning credits to transfer to another university.

UW Colleges had operating costs totaling \$53.6 million in FY 1997-98. Federal grant expenditures for that period totaled \$9.2 million, including \$65,000 for the major research and development program and \$8.1 million for the major student financial aid program.

We documented and tested UW Colleges' internal control structure used in the administration of federal grant programs and compliance with federal grant requirements. Overall, we found UW Colleges' internal control structure adequate to ensure compliance with federal grant requirements.

In addition, we followed up on UW Colleges' efforts to address concerns included in our prior single audit report. UW Colleges satisfactorily addressed our concerns related to Pell grant reporting.

Pell Grant Reporting

For the Pell Grant Program, the UW Colleges central office completes an annual reconciliation between its Pell grant disbursement records and the U.S. Department of Education Student Payment Summary report. UW Colleges must then submit its final Pell grant summary report and student aid report to the Department of Education by September 30 following the end of the academic year.

In prior audits, we found that UW Colleges had difficulty completing and submitting the annual Pell grant reconciliations by September 30. For example, we noted that UW Colleges did not receive reimbursement from the Department of Education for \$19,413 for FY 1992-93 Pell awards made to 37 students. UW Colleges also reported unreimbursed amounts for FY 1994-95 through FY 1996-97. Therefore, during our prior audit, we recommended that UW Colleges take steps to claim the prior years' unreimbursed Pell expenditures from the Department of Education (Finding WI-97-31).

During our current audit, we found that UW Colleges has obtained reimbursement for its FY 1995-96 Pell awards. In addition, UW Colleges has completed the necessary procedures to obtain reimbursement for the FY 1994-95 and FY 1996-97 Pell awards, including obtaining a required certification from the Legislative Audit Bureau. However, UW Colleges is unable to locate the FY 1992-93 student files. Consequently, UW Colleges cannot provide sufficient Pell award information to claim the \$19,413 reimbursement for that period and has decided not to pursue this amount further.

University of Wisconsin-Extension

UW-Extension, in cooperation with the other UW campuses, provides continuing education courses in classrooms and via distance education, as well as a wide-ranging public service program to Wisconsin residents. In FY 1997-98, UW-Extension had operating costs totaling \$69.6 million; federal grant expenditures for that period totaled \$9.8 million.

During our FY 1997-98 audit, we followed up on UW-Extension's efforts to address concerns included in our prior single audit report. We noted that, in accordance with the federal requirement that physical inventories be performed at least every two years, UW-Extension conducted a physical inventory in FY 1996-97 but did not conduct an inventory in FY 1997-98. Therefore, we were unable to follow up on our prior audit finding regarding property management and offer no recommendations at this time. We will continue to monitor this area during future audits. We also found that UW-Extension has satisfactorily addressed our prior audit finding regarding effort reporting.

Property Management

OMB Circular A-110 prescribes standards for equipment furnished by the federal government or whose cost was charged to a federally supported project. For example, it requires UW-Extension to perform a physical inventory at least once every two years and to reconcile its results with the property records.

During the FY 1995-96 audit, we noted three UW-Extension departments had not taken a physical inventory. In response to our concern, UW-Extension implemented a corrective action plan and performed a complete physical inventory in August 1997. However, we noted that UW-Extension's inventory procedures did not specify that the various departments should have a person who does not have custodial responsibility for inventory perform the physical inventory. In addition, UW-Extension did not verify any of the equipment items on the departments' physical inventory listings. As a result, some departments may distribute the inventory listings to employees maintaining the equipment, who may not provide a full and complete report on the status of the equipment. In the FY 1996-97 audit, we recommended that UW-Extension update its procedures to require an independent physical inventory at each department (Finding WI-97-33).

During our FY 1997-98 audit, we were unable to review updated physical inventory procedures or records because, to date, UW-Extension has not conducted a physical inventory since the August 1997 inventory we reviewed during our previous audit. UW-Extension performs a physical inventory of capital equipment only every two years, as required by OMB Circular A-110. Therefore, we make no further recommendation at this time but plan to review physical inventory procedures and documentation during future audits.

Cooperative Extension Service Effort Reporting

To properly support employe salaries, fringe benefit costs, and related indirect costs charged to federal grants, UW-Extension must follow federal effort reporting requirements. The U.S. Department of Agriculture does not require employes whose salaries are fully charged to Cooperative Research funds to positively report their work effort, but OMB Circular A-21 requires employes whose salaries or wages are fully or partially paid with federal funds to report and account for 100 percent of their activity. OMB Circular A-21 allows UW-Extension professional employes working on federal grants to use an after-the-fact activity record system. Under this system, the distribution of salaries and wages by the institution is supported by activity reports. OMB Circular A-21 also requires UW-Extension to adjust accounting records to reflect actual work effort when actual effort significantly varies from amounts originally charged to grant programs.

In the FY 1993-94 through FY 1995-96 audits, we found numerous instances in which Cooperative Extension Division professional employes whose salaries were federally funded were not submitting the required effort reports. We also noted that significant differences between work effort charged to the federal grant and actual work effort reported by employes were not adjusted. Although UW-Extension took steps in FY 1996-97 to have its staff complete the required effort reports, we still found that 2 out of 20 UW-Extension employes tested did not submit the required effort reports, and accounting records were not adjusted for significant variances between effort charged and actual work effort. We recommended that UW-Extension ensure employe effort reports are submitted and accounting records are adjusted to reflect actual work effort (Finding WI-97-32).

During our current audit, we found that UW-Extension implemented a new effort reporting system, which employs an after-the-fact reporting process to document the percentage distribution of employe activity and requires UW-Extension staff sign Personnel Activity Reports to document their work efforts. We tested records for ten employes whose salaries were charged to the federal Cooperative Extension Service in FY 1997-98 and found that all ten employes had submitted the required Personnel Activity Reports, which contained the appropriate verification signatures. We also found that a reconciliation was performed between effort charged and actual work effort, with no significant variances noted.

University of Wisconsin System Administration

UW System Administration is the UW President's staff to assist the Board of Regents in establishing policies; reviewing policy administration; and planning the programmatic, financial, and physical development of the university system. UW System Administration had operating costs totaling \$27.9 million in FY 1997-98; federal grant expenditures for that period totaled \$797,000.

In this audit, we followed up on UW System Administration's efforts to address concerns included in our prior single audit report. We found that UW System Administration has satisfactorily addressed our finding regarding the preparation of the Schedule of Expenditures of Federal Awards for UW System.

Preparation of Schedule of Expenditures of Federal Awards

As required by OMB Circular A-133, as part of each single audit we audit the UW System Schedule of Expenditures of Federal Awards. Guidelines for A-133 single audits require a schedule of expenditures of federal awards for the audit period that, at a minimum:

- lists individual federal programs by federal agency within a cluster of programs;
- provides the total federal awards expended for each individual federal program and the Catalog of Federal Domestic Assistance (CFDA) number or other identifying number when the CFDA is not available;
- includes, for federal awards received as a subrecipient, the name of the pass-through entity and the identifying number assigned by the pass-through entity; and
- identifies, to the extent practical, the total amount provided to subrecipients from each federal program.

In addition, the revised OMB Circular A-133 requires the auditee to submit a data collection form that states whether the audit was completed in accordance with the circular and provides information about the auditee, its federal programs, and the results of the audit. The data collection form also requires a listing of each of the federal grants of the entity, including the CFDA or other identifying number, name, and amount of expenditures for the fiscal year. The Legislative Audit Bureau coordinates the overall collection and compilation for the State, but each agency, including UW System, is responsible for providing the necessary information to the Legislative Audit Bureau.

UW System Administration Financial Reporting is responsible for the preparation of the UW System Schedule of Expenditures of Federal Awards. To prepare the draft Schedule of Expenditures of Federal Awards for FY 1996-97, Financial Reporting staff used the grant expenditures recorded in the accounting records, data in the Extramural Support Information System used by some of the campuses, and worksheets submitted by the other campuses.

During our FY 1995-96 and FY 1996-97 audits, we reviewed the grant schedules for accuracy, completeness, and consistency with the prior year's grant schedule and identified errors that required adjustments for the final Schedule of Expenditures of Federal Awards. The following types of errors occurred:

- grants had missing or incorrect CFDA numbers;
- other identifying numbers were not listed when CFDA numbers were not available;
- grants did not have names listed;
- grants listed the wrong grantor;
- subgrants were classified incorrectly by type of organization; and
- grants were classified incorrectly as research and development, student financial aid, or other.

Although most of these errors related to inaccurate or incomplete grant information from the campuses, UW System Administration Financial Reporting, in its central role, needed to take steps to ensure the completeness and accuracy of the Schedule of Expenditures of Federal Awards and to promote the efficient and timely completion and audit of the grant schedule. Since UW System Administration is ultimately responsible for UW System's Schedule of Expenditures of Federal Awards, we recommended (Finding WI-97-34) that UW System Administration work with each campus to ensure the information provided by the campus is accurate and complete.

In response to our concerns, we found that UW System Administration and the campuses took several steps in FY 1997-98 to improve procedures for preparing the final Schedule of Expenditures of Federal Awards. UW System Administration revised the compilation instructions provided to the campuses to include specific OMB Circular A-133 requirements and illustrations. In addition, campuses reconciled amounts reported in the Schedule of Expenditures of Federal Awards to the underlying accounting records and submitted the schedule in a standardized format. As a result, when reviewing the Schedule of Expenditures of Federal Awards, we identified significantly fewer errors than we have in the past. We encourage UW System Administration to continue its efforts to reduce errors in its grant accounting and reporting.

University of Wisconsin System
Summary of Findings and Questioned Costs
FY 1997-98

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

University of Wisconsin-Madison

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Grant</u>	<u>Finding</u>	<u>Amount Questioned</u>
WI-98-18		Marshall Space Flight Center	Allowable Costs	\$6,538

NATIONAL SCIENCE FOUNDATION

University of Wisconsin-Madison

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Grant</u>	<u>Finding</u>	<u>Amount Questioned</u>
WI-98-18	47.078	Polar Program	Allowable Costs	\$1,997

U.S. DEPARTMENT OF EDUCATION

University of Wisconsin-Madison

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Grant</u>	<u>Finding</u>	<u>Amount Questioned</u>
WI-98-22	84.038	Perkins Loan Program	Loan Assignments	\$ 0
WI-98-23	84.038	Perkins Loan Program	Collection Agencies	0

University of Wisconsin-Oshkosh

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Grant</u>	<u>Finding</u>	<u>Amount Questioned</u>
WI-98-24		Various Student Financial Aid Programs	Federal Reporting*	0

* Repeat finding from audit report 98-12.

University of Wisconsin-Platteville

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Grant</u>	<u>Finding</u>	<u>Amount Questioned</u>
WI-98-25		Various Student Financial Aid Programs	Refunds and Overpayments*	1,085 Plus an Undetermined Amount

University of Wisconsin-River Falls

WI-98-27	84.038	Perkins Loan Program	Loan Collection System	0
WI-98-28	84.038	Perkins Loan Program	Loan Assignments	0
WI-98-29	84.038	Perkins Loan Program	Collection Agencies	0
WI-98-30	84.038	Perkins Loan Program	Late Fee Assessments	0

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

University of Wisconsin-Madison

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Grant</u>	<u>Finding</u>	<u>Amount Questioned</u>
WI-98-18		Department of Health and Human Services Grant	Allowable Costs	\$ 438

* Repeat finding from audit report 98-12.

NONCOMPLIANCE FINDINGS AFFECTING MULTIPLE GRANTS

University of Wisconsin-Madison

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Grant</u>	<u>Finding</u>	<u>Amount Questioned</u>
WI-98-19		Multiple Grants	Cost-sharing Monitoring	\$ 0
WI-98-20		Multiple Grants	Suspension and Debarment Certifications	0
WI-98-21		Multiple Grants	Airline Ticket Procurement*	0

University of Wisconsin-Platteville

WI-98-26		Multiple Grants	Property Management*	0
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* Repeat finding from audit report 98-12.

Inquiries regarding resolution of findings and questioned costs should be directed to the contact person listed in Appendix II of this report.

The Wisconsin Department of Transportation (DOT) is responsible for providing leadership in the development and operation of a safe and efficient transportation system for the State of Wisconsin. DOT administers both state and federal transportation programs, including those affecting highways, bridges, airports, harbors, and railroads. DOT disbursed over \$1.5 billion dollars during FY 1997-98; federal grants to the State financed over \$377 million of that amount.

As part of our standard audit procedures, we reviewed DOT's internal control policies and procedures over receipts, disbursements, and the administration of federal financial assistance programs. We tested compliance with grant requirements for two major grants administered by DOT: Highway Planning and Construction (catalog #20.205), which is a "type A" major program, and the Federal Transit Cluster (catalog #20.500/.507), which is a "type B" major program. Overall, we found DOT's internal controls to be adequate and the agency to be in compliance with the grant requirements for the major programs. We do, however, have concerns regarding DOT's compliance with federal requirements related to monetary recoveries from contractors. In addition, we followed up on the findings included in our prior single audit report (98-12).

Monetary Recoveries from Contractors

During FY 1997-98, DOT expended \$329 million of federal Highway Planning and Construction grant (catalog #20.205) funds. If the State recovers funds from highway contractors for project overcharges due to bid-rigging, fraud, or antitrust violations, or otherwise recovers compensatory damage, federal rules require DOT to credit the federal government's share of the recovery to the applicable federal aid projects.

During FY 1997-98, DOT recovered \$40,000 for a settlement payment from a contractor. The settlement stipulation identified the payment as "representing a compromise of an amount in dispute between the parties and claimed by [DOT] as damages for 13 projects [DOT] identified as examples of the contractor's allegedly unlawful business practices." However, DOT credited the entire \$40,000 settlement amount to state accounts, rather than crediting the federal government for its share of financing for the 13 affected projects.

We discussed our concerns with DOT staff, who agreed that the federal compliance requirement related to recoveries had not been met because DOT accounting staff were not informed as to how to properly account for such recoveries. In response to our concerns DOT credited \$21,354, which is the federal government's share of the recovery, to federal aid project accounts in February 1999. Therefore, we do not question any costs.

FINDING WI-98-31: However, *we recommend the Wisconsin Department of Transportation develop written procedures to ensure that the federal government's share of contractor recoveries is credited to the proper federal aid project accounts.*

Questioned Costs: Highway Planning and Construction (catalog #20.205, award #NH0017071; #NH00170070; #NH0010019; #STP8201005; #IM00902184; #RSMAD0622003; #STP0052030; #STP0019080; and #DPIMA0131003): Contractor Recoveries = None

DOT Response and Corrective Action Plan: The Transportation Administrative Manual (TAM) holds DOT's policies on a variety of topics. TAM 73, written to provide direction on refunds, was revised earlier this year and now includes the following note:

Note: Projects that are multi-funded by appropriations both covered and exempt from the Refund of Expenditure Policy.

To assure that the Federal Government and Local Units receive their fair share of any refund (including audit refunds), the entire amount received should be credited to the appropriate FOS project id. The state share of any refund should be calculated and a journal entry (voucher) created to debit the applicable or related state appropriations 0110-xx-xx project and credit the most applicable Appropriation 900 revenue project. See your assigned Consulting Accountant for further guidance on this treatment of refunds

Prior Audit Follow-up

As part of our current audit, we followed up on DOT's progress in addressing Findings WI-97-35 through WI-97-38 in the FY 1996-97 single audit report. DOT has implemented appropriate corrective action related to contract change order pre-approvals. However, we noted continued or related concerns over debarment and suspension, the Cash Management Improvement Act, and capital equipment inventory.

Contract Change Order Pre-approvals

23 CFR 635.121 requires grantees of the Federal Highway Administration (FHWA) Highway Planning and Construction grant to obtain pre-approval from FHWA for extensions affecting project costs or for contract change orders. DOT has a certification acceptance agreement with FHWA that limits this requirement of FHWA pre-approval to contract change orders on federal interstate projects that exceed \$50,000 or significantly change the scope of the project. During our prior audit, we found that DOT did not obtain pre-approval for one of the five contract change orders exceeding \$50,000 (Finding WI-97-36). DOT has taken appropriate corrective action by reissuing its policy statement on the requirement and by directing districts to establish specific procedures to obtain the necessary FHWA pre-approval.

Twelve projects during FY 1997-98 had contract change orders greater than \$50,000. We tested one project from each of the five DOT districts and found that DOT had received the required FHWA pre-approval.

Debarment and Suspension

The federal government prohibits grantees from entering into any agreement with a person or entity that is barred, suspended, declared ineligible, or voluntarily excluded from participation in federal programs. In accordance with 49 Code of Federal Regulation (CFR) Part 29, and as part of its agreement with the U.S. Department of Transportation's National Highway Traffic Safety Administration (NHTSA) to receive State and Community Highway Safety (catalog #20.600) grant money, DOT agreed to include specific information in subrecipient grant agreements, without modification, regarding subrecipients' certification that they will comply with this requirement. During our prior audit, we found that none of the 22 highway safety grant subrecipient agreements that we reviewed included the full text of the required information on the debarment and suspension requirement (Finding WI-97-35).

Our prior audit follow-up found that DOT did not fully implement its corrective action plan to revise State and Community Highway Safety grant agreements to include all of the information, without modification, regarding the debarment and suspension certification. While DOT's agreements now include the debarment and suspension certification, DOT does not include the accompanying instructions for certification, which are required under 49 CFR Part 29 and with DOT's agreement with NHTSA.

FINDING WI-98-32: We again recommend the Wisconsin Department of Transportation meet the federal requirement to include all of the specified information on the debarment and suspension federal grant requirement, without modification, in all State and Community Highway Safety agreements with subrecipients.

Questioned Costs: State and Community Highway Safety (catalog #20.600):
Debarment and Suspension = None

DOT Response and Corrective Action Plan: It appears that some federal FY 1998-99 grants were approved, even though they were received on contract forms used in previous years that did not include all required contract terms and conditions. Recently signed contracts include the required contract language on debarment and suspension. All future contracts will contain the required language or they will be returned to the applicant.

Cash Management Improvement Act

An agreement in accordance with the federal Cash Management Improvement Act (CMIA) was signed between the State of Wisconsin and the U.S. Treasury for the period July 1994 through June 1999 to ensure that neither the federal government nor the State is able to earn interest income at the expense of the other. The Highway Planning and Construction grant (catalog #20.205) and the Airport Improvement

Program grant (catalog #20.106) are subject to the CMIA agreement. During FY 1997-98, DOT received \$311 million in reimbursement under the Highway Planning and Construction grant and \$29 million under the Airport Improvement Program.

The agreement requires the State to follow the “composite average clearance day method” when seeking federal reimbursement of grant expenditures. Under this method, federal funds are transferred to DOT based on the dollar-weighted average number of days for checks to clear the bank after issuance. DOT is to compute the composite average clearance day based on check clearance patterns provided by the Wisconsin Department of Administration (DOA).

During our FY 1994-95 and FY 1995-96 audits, we noted that DOT may have used an incorrect average clearance day for the Highway Planning and Construction grant and that DOT had not computed the composite average clearance day for the Airport Improvement Program. DOT agreed to perform these computations after it received the necessary check clearance data that it was to obtain from the State’s working bank. During our FY 1996-97 audit, we noted that DOT had obtained check clearance data from DOA but had not performed the necessary computations (Finding WI-97-37).

DOT has computed a Wednesday draw down day for expenditures charged to the Highway Planning and Construction grant during the previous week, and a Tuesday draw down day for the Airport Improvement Program. DOT computed the draw down days for both grants using the number 14, representing the number of calendar days during each two-week period. However, the calculations should have used the number 10, representing the number of working days in a two-week period, since DOA’s check-clearance patterns reflected the checks that cleared during each of the 10 working days. We calculated the draw down days based on 10 working days and arrived at the same draw down day for the Highway Planning and Construction grant. However, we calculated a Wednesday draw down day for the Airport Improvement Program. Because DOT requested federal reimbursement for the Airport Improvement Program on Tuesday, rather than Wednesday, the State earned an undetermined amount of interest at the expense of the federal government, which does not meet the intent of the Cash Management Improvement Act.

FINDING WI-98-33: We recommend the Wisconsin Department of Transportation use a Wednesday draw down day for the Airport Improvement Program to ensure compliance with the Cash Management Improvement Act.

Questioned Costs: Airport Improvement Program (catalog #20.106): Cash Management Improvement Act = None

DOT Response and Corrective Action Plan: DOT agrees with the recommendation and has already implemented a Wednesday draw down day for the Airport Improvement Program to ensure compliance with the Cash Management Improvement Act.

Capital Equipment Inventory

DOT receives funds from NHTSA under the State and Community Highway Safety grant (catalog #20.600) and the Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants (catalog #20.601). A portion of these funds is then subgranted to local units of government to fund various traffic safety programs. Under the grant regulations, the localities may use grant funds to purchase capital equipment used for the grant programs, such as computer equipment.

Federal regulations discuss the various requirements relating to equipment purchased in whole or in part with grant funds. For example, 49 CFR 18.32(d) states that equipment must be physically inventoried and the results reconciled with the equipment records at least once every two years. In addition, proceeds from the sale of a piece of equipment that exceed \$5,000 may need to be returned to the awarding agency.

The federal government requires DOT to monitor subrecipients' compliance with federal grant requirements. To accomplish this for capital equipment purchased by both the state and subrecipients under these traffic safety grants, the DOT Bureau of Transportation Safety established a central capital equipment inventory system. Localities purchasing capital equipment with traffic safety grant funds are required to provide the bureau with sufficient information to enter the equipment onto the inventory system.

During our FY 1996-97 audit, we reported that DOT performed a physical inventory and properly recorded disposals of state-owned equipment on the Bureau of Transportation Safety inventory system. However, the area administrators in charge of overseeing the subrecipient grant programs had not attempted to perform a physical inventory of locally purchased equipment for at least five years. Further, they had not obtained information on disposals of such equipment, so they were unable to determine whether any sales proceeds should have been returned to the federal government (Finding WI-97-38). DOT agreed to reprogram its computerized inventory system by October 31, 1998; perform a physical inventory by December 31, 1998; reconcile the results of the inventory with inventory records by March 31, 1999; and obtain all required information on disposals of federally funded equipment by March 31, 1999.

DOT reprogrammed its inventory system and financial system and updated the inventory records. In addition, at the time of our fieldwork, DOT had started to obtain information on disposals of federally funded equipment and to make determinations of subrecipients' compliance with federal equipment disposal requirements. However, DOT had not performed a physical inventory of locally owned capital equipment purchased with federal funds and had not ensured that its current inventory records were correct. DOT staff explain that area administrators have given other activities higher priority.

FINDING WI-98-34: To comply with federal equipment management requirements, we again recommend the Wisconsin Department of Transportation's Bureau of Transportation Safety complete a physical inventory of the locally owned capital equipment purchased with federal grant funds at least once every two years and reconcile the results to the equipment records. In addition, we recommend the Bureau of Transportation Safety continue with its efforts to obtain sufficient information on disposals of federally funded equipment to ensure subrecipients comply with equipment disposal requirements.

Questioned Costs: State and Community Highway Safety (catalog #20.600):
Capital Equipment Inventory=None

Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants
(catalog #20.601): Capital Equipment Inventory = None

DOT Response and Corrective Action Plan: Additional functionality is due to be programmed into the inventory system of the Bureau of Transportation Safety by June 30, 1999. In the interim, bureau staff have been asked to identify items not included on the existing inventory system and to document the status of the items that remain on the system. Because the threshold for capital equipment is now set at \$5,000, the bureau of Transportation Safety will release the federal interest in the inventory items valued at less than that \$5,000 threshold. After this is completed, grant file records and inventory will be reconciled.

Wisconsin Department of Transportation
Summary of Findings and Questioned Costs
FY 1997-98

U.S. Department of Transportation

<u>Finding.</u> <u>Number</u>	<u>CFDA</u> <u>Number</u>	<u>Grant</u>	<u>Finding</u>	<u>Amount</u> <u>Questioned</u>
WI-98-33	20.106	Airport Improvement Program	Cash Management Improvement Act*	\$ 0
WI-98-31	20.205	Highway Planning and Construction	Contractor Recoveries	0
WI-98-32	20.600	State and Community Highway Safety	Debarment and Suspension*	0
WI-98-34	20.600	State and Community Highway Safety	Capital Equipment Inventory*	0
WI-98-34	20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	Capital Equipment Inventory*	0

* Repeat finding from audit report 98-12

Inquiries regarding resolution of findings and questioned costs should be directed to the agency contact person listed in Appendix I of this report.

The Wisconsin Department of Public Instruction (DPI) is responsible for providing direction for public elementary and secondary education in Wisconsin and for ensuring access to public library services to all state citizens. DPI disbursed over \$4.0 billion during FY 1997-98; federal grants to the State financed over \$326.3 million of that amount. In addition, DPI distributed \$16.4 million worth of food products during the year under various federal commodity distribution programs.

As part of our standard audit procedures, we reviewed DPI's internal control policies and procedures over receipts, disbursements, and the administration of federal financial assistance programs. We tested DPI's compliance with grant requirements for the Child Nutrition Cluster (catalog #10.553, #10.555, #10.556, and #10.559), Food Distribution Program (Catalog #10.550), and Child and Adult Care Food Program (catalog #10.558), all of which are "type A" major programs; and Goals 2000—State and Local Education Systemic Improvement Grants (catalog #84.276), which is a "type B" major program. In addition, we tested compliance for the Vocational Education—Basic Grants to States (catalog #84.048) subgrant received from the Wisconsin Technical College System Board and the Temporary Assistance for Needy Families (catalog #93.558) subgrant received from the Wisconsin Department of Workforce Development.

Overall, we found DPI's internal controls to be adequate and the agency to be in compliance with the grant requirements for the major programs. We did not identify any new internal control weaknesses or new instances of noncompliance with federal requirements.

Prior Audit Follow-up

As part of our current audit, we followed up on the progress DPI made in implementing findings WI-97-39 through WI-97-41 in the FY 1996-97 single audit report (98-12). DPI has implemented appropriate corrective action related to Financial Status Reports, food distribution reporting, and reconciliation and documentation of food inventory.

Financial Status Reports

Section 74.52(a)(1) of the Education Department General Administrative Requirements requires grantees to periodically submit Financial Status Reports (FSRs) for grants unless that requirement is waived by the U.S. Department of Education. During our prior audit, we noted that DPI was not submitting FSRs for the Safe and Drug-Free Schools and Communities—State Grants program (catalog #84.186) and had not obtained a written waiver not to do so (Finding WI-97-39).

On February 11, 1999, DPI requested, in the form of a “90-day letter,” a waiver from the Department of Education from the requirement to submit FSRs for the Safe and Drug-Free Schools and Communities—State Grants program. According to Department of Education General Administrative Regulations, DPI’s request is to be granted if no authorized Department of Education official responds within 90 days of receipt of the letter. Since the Department of Education did not respond to DPI’s request within the 90-day period, it appears that DPI has been granted a federal waiver from the requirement to submit FSRs to the federal government for the Safe and Drug-Free Schools and Communities—State Grants program.

Food Distribution Reporting

Through the Food Distribution program (catalog #10.550), the U.S. Department of Agriculture (USDA) provides DPI, as the designated state agency, with food for distribution to eligible recipient agencies, including schools, charitable institutions, nutrition programs for the elderly, and nonprofit summer camps for children. DPI contracts with warehouses to store food received from USDA and to deliver the food items to recipient agencies when directed by DPI. DPI submits to USDA semi-annual inventory management registers to identify excess food commodities held in warehouses. According to the instructions for the registers, the State has excess food commodities when food on hand exceeds six months’ typical distribution to recipient agencies.

In our prior audit, we reported that DPI had not formalized its methods for calculating excess food commodities (Finding WI-97-40). DPI specified its method to calculate excess commodities in its prior audit corrective action plan. Under this method, for each commodity, DPI will compute the total number of cases received from USDA each year, divide this number by eight, representing the number of distributions to recipients each year, and multiply the quotient by six to determine the amount typically distributed by DPI during a six-month period. DPI will compare this computed amount to the amount of each food commodity on hand as of December 31 and June 30. Food commodities on hand greater than the computed amount will be identified as excess inventory. However, quantities set aside for the next month’s allocation will not be included in this computation.

DPI’s proposed methodology is reasonable. As part of our current audit, we reviewed the June 30, 1998 inventory management register and found DPI used this methodology to determine there were no excess food commodities as of June 30, 1998.

Reconciliation of Food Commodity Information

As noted, DPI is the designated state agency that administers the Food Distribution program under which the USDA provides DPI with food for distribution to eligible recipient agencies. DPI contracts with warehouses to store food received from the USDA and to deliver it to recipient agencies when directed by DPI. DPI maintains a food distribution computer system to track food commodity inventories maintained at the warehouses.

During our prior audit, we found that DPI was not adequately documenting the resolution of discrepancies noted during its monthly reconciliations of its records to the warehouses' records (Finding WI-97-41). During our current audit, we found DPI implemented its corrective action plan to address concerns in this area. We reviewed DPI's May and June 1998 reconciliation records. DPI sent memoranda to the warehouses asking them to explain identified discrepancies. The warehouses provided explanations to DPI over the telephone, and DPI documented the resolution of the discrepancies on its copy of the memoranda sent to the warehouses.

DEPARTMENT OF ADMINISTRATION

The Wisconsin Department of Administration (DOA) provides support services to other state agencies; coordinates statewide planning for information technology, housing, telecommunications, energy, and coastal management; and performs other functions prescribed by law. DOA is also responsible for providing the Governor with fiscal management information and the policy alternatives required for preparation of Wisconsin's biennial budget. DOA disbursed over \$331.1 million during FY 1997-98; federal grants to the State financed over \$90.9 million of that amount.

As part of our standard audit procedures, we reviewed DOA's internal control policies and procedures related to receipts, disbursements, and the administration of federal grant programs. We tested its compliance with grant requirements for the Emergency Shelter Grants Program (catalog #14.231) and for the Donation of Federal Surplus Personal Property program (catalog #39.003), both which are "type B" major federal grant programs.

Overall, we found DOA's internal control structure to be adequate and the agency to be in compliance with the grant requirements for the major programs. However, we reported DOA had lapsed \$2 million to the State's General Fund from an internal service fund without returning to the federal government the portion of this amount generated by charges to federal programs. In addition, we have concerns related to program income for the HOME Investment Partnerships Program (catalog #14.239) awarded by the U.S. Department of Housing and Urban Development. Finally, DOA included certain unallowable costs in the State wide Cost Allocation Plan.

We also followed up on the progress DOA made in addressing findings WI-97-42 through WI-97-45 of our prior single audit report (98-12). DOA has taken steps to address concerns related to HOME purchase price limits and space rental rates. However, while DOA has prospectively addressed concerns related to indirect and overhead costs charged to federal grants and subgrants, it did not adjust amounts charged to grants administered during the audited period.

Internal Service Fund Lapse to General Fund

DOA's Division of Information Technology Services (Info-Tech) provides centralized mainframe computer processing and other services and bills state agencies according to their level of use. State agencies, in turn, charge computer user fees to state and federal accounts and seek reimbursement from the federal government for its share.

The Info-Tech internal service fund balance as of July 1, 1997 was \$13,022,900. In s. 9201, 1997 Wis. Act 27, the Legislature directed DOA to lapse, during FY 1997-98, \$2 million to the State's General Fund from the appropriation authorized under s. 20.505(1)(kL), Wis. Stats., to account for Info-Tech activities. We are concerned

because a portion of the \$2 million lapsed to the General Fund, representing excess computer user fees charged to federal grants and reimbursed by the federal government, potentially should be returned to the federal government.

DOA staff noted that DOA reported the \$2 million lapse as a transfer out on the FY 1997-98 Info-Tech Reconciliation of Retained Earnings Balance to Federal Guidelines report, which is submitted as part of Section II of the statewide cost allocation plan. We contacted the DHHS official who reviews the State's cost allocation plan and were told her office will be following up with DOA on the lapse issue. She stated that, as a general rule, 20 percent of any internal service fund balance should be attributable to charges to federal grant programs. She added that in some cases DHHS reviews the specific state or federal programs that are charged for the internal services and may attribute a larger, or smaller, portion of the internal service fund balance to the federal government. We noted that a large portion of the Info-Tech fees are charged to the Wisconsin Department of Workforce Development, which uses large and complex computer applications to administer federal grant programs. Therefore, it would appear likely that at least 20 percent, or \$400,000, of the excess Info-Tech fund balance is attributable to federal grant programs and may need to be returned to the federal government. Since DOA included the \$2 million lapse from the Info-Tech internal service fund to the General Fund in the FY 1997-98 Info-Tech Reconciliation of Retained Earnings Balance to Federal Guidelines report, we do not make any recommendations or question any costs at this time. We will, however, follow up during our FY 1998-99 audit to determine the status of DHHS' review of Section II of the statewide cost allocation plan.

HOME Program Income

During FY 1997-98, DOA expended \$11.6 million under the HOME Investment Partnerships Program, which was created to expand the supply of affordable housing for low-income individuals. The Home Buyer Assistance (HBA) program, a component within the HOME Program, provides assistance for down payments and closing costs to low-income home buyers. DOA awarded \$1.1 million under a subgrant agreement with C-Cap, Inc., a nonprofit corporation, to fund and administer the HBA program. The contract covered the time period from April 15, 1997 through October 14, 1998. The subgrant included \$100,000 for C-Cap's administrative costs, of which DOA paid \$72,000 during the audited period. However, we are concerned that DOA did not require C-Cap to treat as program income \$49,200 of fees collected from lenders for the 328 loans closed during FY 1997-98.

Under 24 CFR 92.2, program income means gross income received by the State or subgrantee directly generated from the use of HOME funds or matching contributions. 24 CFR 92.503(a) requires program income to be held and used by the State for HOME program purposes unless, as allowed by 24 CFR 92.504, the State, through DOA, agrees in writing to allow the subgrantee to retain the program income for additional HOME projects.

Low-income individuals apply to financial institutions for funding under the HBA program. Financial institutions forward documentation to C-Cap, which verifies applicant eligibility and compliance with HBA rules. If approved, C-Cap requests funds from DOA and forwards them to the financial institutions. C-Cap charges banks a \$150 fee for each closed loan. C-Cap generated \$49,200 from the 328 loans that closed during FY 1997-98. Since DOA's contract with C-Cap did not specify that C-Cap may retain the \$150 fee charged to banks, we became concerned that the money should have been treated as program income and deposited in a DOA account, as required by federal rules.

We spoke with staff in the Community Planning and Development Unit of the Milwaukee Office of U.S. Department of Housing and Urban Development to determine whether the \$150 fee should be considered program income. Staff indicated consideration should be given to how similar loan programs handle such fees and whether the fees are reasonable and customary. DOA did not provide us with any examples of fees being charged for similar programs, so we could not make comparisons with other DOA housing programs.

DOA staff contacted C-Cap, which explained that the following items were covered by the \$150 fee charged to financial institutions: program marketing, manual development, travel, training, development of a homebuyer counselor system, compliance review, post-closing activities, acting as fiscal agent on defaulted grants, and handling the satisfaction of the mortgage at the end of five years. However, it appears that some of these costs were also covered by the provisions for administrative costs included in the subgrant agreement between DOA and C-Cap. For example, the agreement specified that the subgrant be for:

- developing materials and promoting the HBA program;
- travel expenses; and
- training expenses.

In addition, the contract states that “the contractor agrees to follow the policies and procedures of the Department and 24 CFR 92,” which include verifying that participant eligibility and other compliance requirements are met.

As a result, it appears a portion of the estimated \$49,200 of processing fees that C-Cap received from financial institutions was to pay for the same costs that DOA reimbursed C-Cap for under the subgrant agreement and, therefore, should have been treated as program income. Since DOA could not document the portion of the processing fee that was used to pay for costs other than those paid from HBA administrative funds, we question the entire \$49,200 that DOA should have required C-Cap to treat as program income.

FINDING WI-98-35: *We recommend the Department of Administration treat the bank fees collected by C-Cap, Inc., as program income of the HOME program and follow the*

requirements of 24 CFR 92 for their treatment, which could allow for a written agreement with C-Cap, Inc. for their disposition.

Questioned Costs: HOME Investment Partnerships Program (catalog #14.239, award #M95 SG550100): Program Income = \$49,200.

DOA Response and Corrective Action Plan: DOA will work with the Division of Housing to gather examples of fees charged in similar programs and document whether these are categorized as program income. DOA will also contact C-CAP and determine what portion of C-CAP's administrative costs was covered by the DOA contract and what portion was covered by the processing fee. Pending the results on this additional analysis, DOA disagrees with the recommendation to treat \$49,200 as program income.

Unallowable Costs Included in the Statewide Cost Allocation Plan

OMB Circular A-87 allows state agencies to charge indirect costs to federal grant programs. The State Controller's Office within DOA prepares and submits the statewide cost allocation plan to the DHHS Division of Cost Allocation for approval. State agencies are allowed to include in their indirect cost rate calculations an allocated share of DOA's and other agencies' costs incurred to provide central services, as included in the plan. However, federal rules require state agencies to exclude from their indirect cost calculations central service costs that are billed directly to users. Therefore, when preparing the statewide cost allocation plan, the State Controller's Office is to include only those statewide central service costs charged to general purpose revenue accounts and is to exclude those costs accounted for in program revenue appropriations, which are billed to agencies and other users on a fee-for-service or similar basis.

We traced amounts included in the FY 1997-98 statewide cost allocation plan, which were based on FY 1995-96 actual costs, to supporting documentation and tested the mathematical accuracy of the amounts allocated. We noted that, due to apparent oversight, the State Controller's Office included \$292,987 of DOA's, Office of Computer Service's program revenue costs that had been billed directly to users. We performed additional testing and did not detect other instances in which program revenue costs were included in the statewide cost allocation plan.

However, since state agencies include their share, as indicated in the plan, of statewide central service costs in their indirect cost calculations, the agencies' indirect cost rates may be overstated due to inclusion of the \$292,987 of Office of Computer Service program revenue costs. The State Controller's Office estimates that 10 to 15 percent of the costs included in the statewide cost allocation plan are recovered through indirect charges to the federal government. Therefore, state agencies may have requested \$29,299 to \$43,948 of excess federal indirect cost reimbursements.

FINDING WI-98-36: We recommend the Department of Administration's State Controller's Office include only allowable central service costs in the statewide cost allocation plan submitted to the federal government for approval.

Questioned Costs: Multiple Grants: Unallowable Costs Included in the Statewide Cost Allocation Plan = \$29,299 to \$43,948

DOA Response and Corrective Action Plan: DOA agrees with this finding. The State Controller's Office will propose to the Division of Cost Allocation that the allocated costs in the FY 1998-99 plan be reduced by a similar amount.

Prior Audit Follow-up

We followed up on DOA's progress in implementing corrective action plans for Findings WI-97-42 through WI-97-45 in our FY 1996-97 single audit report. DOA has generally implemented, or is in the process of implementing, acceptable corrective action to address our concerns. However, DOA did not adjust indirect and overhead costs charged to federal grants during FY 1997-98.

Indirect and Overhead Costs

OMB Circular A-87 allows state agencies to charge indirect costs to federal grant programs. As a state agency that administers federal grants, DOA proposed and negotiated with the federal government an indirect cost rate of 6 percent of direct salaries and fringe benefits for the period July 1, 1997 through June 30, 1999. During FY 1997-98, DOA received \$162,255 in federal indirect cost reimbursements for its various grant programs. In addition, DOA received \$23,904 in reimbursement for overhead costs charged to subgrants from other state agencies and other entities.

During our prior audit, we noted two concerns. First, DOA inappropriately included in its indirect cost pool costs that were also allocated to other state agencies through the statewide cost allocation plan. Second, DOA had not sought federal approval, as required by Circular A-87, for its methodology to allocate overhead costs to federal subgrants received from other state agencies and other governmental entities. For our FY 1996-97 audit, we questioned \$146,720 of indirect costs charged to a variety of federal grants (Finding WI-97-42) and \$68,952 charged to a variety of subgrants (Finding WI-97-43).

In our prior audit report, we recommended that DOA remove from its own indirect cost pool central service costs that had been allocated to other state agencies, determine whether additional DOA costs could be included in its indirect cost rate calculations instead of being charged as overhead charges to the federal government, and charge indirect costs to subgrants only in accordance with a federally approved indirect cost plan. In March 1999, DOA submitted its indirect cost proposal for the period July 1, 1999 to June 30, 2001 to DHHS for approval. DOA informed us that it had incorporated the recommended changes for its proposed indirect cost rate calculations and for its methodology to allocate overhead costs to federal subgrants. As of the time of our fieldwork, DHHS had yet to approve DOA's proposal. During our FY 1999-2000 single audit, we will follow up to determine whether DHHS approved the indirect cost proposal and test DOA's indirect cost rate calculations and indirect costs charged to federal grants and subgrants.

However, DOA did not adjust the indirect costs and overhead charged to federal grants and subgrants during FY 1997-98. As shown in Table 2, DOA did not eliminate at least \$1.5 million from its own indirect cost pool that was also allocated to other state agencies and included in their indirect cost rate calculations.

Table 2

**Costs Included Both in DOA’s Indirect Cost Pool and as
Central Service Costs**

<u>Description</u>	<u>Amount</u>
Allowable Costs of the Office of the Secretary	\$ 540,856
Bureau of Financial Management Costs	240,099
Bureau of Management Services Costs	293,051
Bureau of Personnel Costs	254,456
Various Department-wide Costs	<u>234,155</u>
Total	\$1,562,617

However, as noted in our prior audit report, it appears DOA may not have included in its indirect cost rate calculations all of the costs that it could have included and, therefore, that the amount that ultimately should be repaid to the federal government may be less than the amount questioned. State Controller’s Office staff who prepared the statewide cost allocation plan informed us that, as part of the methodology used to prepare the plan, some costs incurred by DOA are assigned to a category titled “DOA Direct,” rather than allocated to state agencies. In response to our prior audit finding, DOA staff reviewed these costs and other costs they believe could have been included in the indirect cost rate calculations, and they believe there are sufficient expenditures to substitute for the double-counted expenditures. However, since the federal government has not contacted DOA to resolve whether it is acceptable to substitute these expenditures, we question an undetermined amount of indirect costs charged during FY 1997-98.

In addition, DOA did not adjust for \$23,904 of overhead costs charged to three subgrants during FY 1997-98. Since DOA had not sought federal permission to charge overhead to the subgrants in the manner that it did, we question the entire \$23,904 of overhead costs charged to three subgrants during our audit period.

While we make no new recommendations, we note the indirect cost reimbursement proposal DOA submitted to the federal government for approval is for the period July 1, 1999 through June 30, 2001. Therefore, even if this plan is approved, DOA will

need to adjust indirect and overhead costs charged to federal grant programs during FY 1998-99. We will follow up during our FY 1998-99 audit to determine whether DOA made the necessary adjustments or, as part of the audit resolution process, received federal permission not to do so.

FINDING WI-98-37:

Questioned Costs: Multiple Grants: Unallowable Costs Included in Indirect Cost Pool = Undetermined

Community Development Block Grants/State's Program Subgrant (catalog #14.228, award #B-98-DC-55-001): Unallowable Overhead Costs Charged to Subgrants: = \$11,520

Regional Biomass Energy Programs Subgrant (catalog #81.079, award #CGLC97002): Unallowable Overhead Costs Charged to Subgrants = \$1,656

Low-Income Home Energy Assistance Subgrant (catalog # 93.568, award #G98B1WILIEA): Unallowable Overhead Costs Charged to Subgrants = \$10,728

DOA Response and Corrective Action Plan:

Indirect Costs: DOA agrees that the amounts listed were allocated in the statewide cost allocation plan; however, part of the allocation of each of these amounts was to "DOA Direct," which is an allowable indirect cost. Therefore, some of the costs are appropriately included; in addition, there are costs that DOA did not include in the original calculation that should be considered. DOA has recalculated the rate, and with corrected information the actual rate would be 6.326 percent, compared to the approved rate of 6.4 percent, a difference of 0.074 percent. DOA is awaiting federal review of the corrected rate and believes that the actual overcharge will be very small.

Overhead Costs Charged to Subgrants: Since this issue was not raised until April 1998, DOA did not adjust the overhead it had already charged in FY 1997-98. Also, as mentioned in the response to the FY 1996-97 audit recommendation, DOA disagrees with the disallowance on the low-income energy assistance funding, as this grant does not involve personnel costs, the basis for applying the indirect rate. Therefore, DOA would not be able to assess any charges for the administrative workload related to this program. DOA believes that the overhead charge of \$10,728 is equitable. DOA calculated the amount that could have been charged for indirect costs for the Community Development Block Grant and the Regional Biomass Energy Programs had they been included in the indirect cost plan and approved. DOA calculated it had charged the federal government \$470 less for the two grants using the overhead rate than it would have charged using an approved indirect rate.

Purchase Price Limits

DOA receives federal funding under the HOME Investment Partnerships Program, which was created to expand the supply of affordable housing for low-income individuals. The federal government requires that if HOME funds are used to assist individuals in purchasing houses, the purchase price is to be no greater than 95 percent of the median purchase price of houses for the area. States may choose either to determine their own limits or to use limits established by the Federal Housing Administration (FHA). DOA has chosen to use the FHA limits for its HOME program.

However, during FY 1996-97, DOA reimbursed C-Cap, Inc., the nonprofit subrecipient responsible for administering the Home Buyer Assistance program, which is a subprogram within the HOME Program, for at least one claim for which the home purchase price was in excess of the FHA purchase price limits. We questioned \$4,000 and recommended (Finding WI-97-44) DOA review Home Buyer Assistance program project completion reports for compliance with the federal regulations prior to reimbursing the subrecipient. DOA appears to have addressed our concerns in this area. We tested 24 reimbursement claims submitted by C-Cap, Inc., and found no instances of noncompliance with federal purchase price limits.

Building Space Rates Charged to Federal Grants

DOA owns and administers many of the State's office buildings and is responsible for developing space rental charges sufficient to recover costs of acquiring and maintaining the buildings. However, certain costs of acquiring and maintaining buildings are not allowable costs under Circular A-87 and must be excluded from the amounts allocated to federal grant programs. For example, the federal government does not allow interest for buildings acquired prior to October 1980 to be charged to federal grants, although interest incurred after this time is allowable. Therefore, DOA calculates and seeks federal approval for space rates that agencies may use when allocating rental costs to federal and state-matching accounts.

In our prior audit, we found DOA was not including in its rental rate calculations the interest on bonds issued for buildings acquired after October 1, 1980, as allowed by Circular A-87. As a result, DOA's calculated federal space rates were less than the amounts actually allowable (Finding WI-97-45). In response to our prior audit recommendation, DOA included interest in its calculations for the proposed FY 1999-2000 federal space rates submitted to DHHS on March 31, 1999 for approval.

**Wisconsin Department of Administration
Summary of Findings and Questioned Costs
FY 1997-98**

U.S. Department of Housing and Urban Development

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Grant</u>	<u>Finding</u>	<u>Amount Questioned</u>
W-98-35	14.239	HOME Investment Partnerships Program	Program Income	\$49,200

Wisconsin Department of Health and Family Services

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Grant</u>	<u>Finding</u>	<u>Amount Questioned</u>
WI-98-37	93.568	Low-Income Home Energy Assistance subgrant	Unallowable Overhead Costs Charged to Subgrants*	\$10,728

Wisconsin Department of Commerce

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Grant</u>	<u>Finding</u>	<u>Amount Questioned</u>
WI-98-37	14.228	Community Development Block Grants/State's Program subgrant	Unallowable Overhead Costs Charged to Subgrants*	\$11,520

Council of Great Lakes Governors

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Grant</u>	<u>Finding</u>	<u>Amount Questioned</u>
WI-98-37	81.079	Regional Biomass Energy Programs subgrant	Unallowable Overhead Costs Charged to Subgrants*	\$ 1,656

Noncompliance Findings Affecting Multiple Grants

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Grant</u>	<u>Finding</u>	<u>Amount Questioned</u>
WI-98-37		Multiple Grants	Unallowable Costs Included in Indirect Cost Pool*	Undetermined
WI-98-36		Multiple Grants	Unallowable Costs Included in the statewide cost allocation plan	\$29,299 to \$43,948

* Repeat finding from audit report 98-12.

Inquiries regarding resolution of findings and questioned costs should be directed to the agency contact person listed in Appendix I of this report.

The Wisconsin Department of Natural Resources (DNR) administers programs related to environmental standards for air and water quality, water supply regulation, solid waste management, fish and wildlife management, state parks, and forestry. DNR disbursed almost \$429 million during FY 1997-98; federal grants to the State financed \$57.6 million of that amount.

As part of our standard audit procedures, we reviewed DNR's internal control policies and procedures over receipts, disbursements, and the administration of federal grant programs. We tested compliance with grant requirements for two major grants administered by DNR: Capitalization Grants for State Revolving Funds (catalog #66.458), a "type A" major program, and State Public Water System Supervision (catalog #66.432), a "type B" major program.

We have concerns because DNR did not request federal reimbursement of grant expenditures in a timely manner. In addition, we followed up on DNR's progress in implementing the recommendations presented in our prior single audit report (98-12). We continue to have concerns related to the reconciliation between DNR's Cost Accounting and Reporting System (CARS) and WiSMART, and property management.

Cash Management

Effective cash management requires state agencies to request federal reimbursement as soon as practical after incurring allowable grant expenditures. The State receives federal reimbursements related to the Capitalization Grants for State Revolving Funds automatically and in a timely manner through the State's Cash Management System administered by the State Controller's Office. However, during FY 1997-98, DNR used other processes to request over \$41 million of federal reimbursements for other grant programs because DNR's accounting methods for these grants do not allow it to effectively use the Cash Management System.

In prior years, DNR requested federal reimbursement on a monthly basis. However, during our audit period, DNR requested reimbursement on a quarterly basis or at a longer interval because, according to Bureau of Finance staff, the agency experienced difficulties obtaining the necessary expenditure information from CARS, which was implemented at the start of FY 1996-97. As a result, state funds temporarily subsidized federal programs, resulting in lost interest earnings to the State.

We reviewed DNR's federal reimbursement requests for five U.S. Environmental Protection Agency (EPA) grants with large negative cash balances. At the end of FY 1997-98, DNR had incurred unreimbursed expenditures totaling \$4,177,660 for those grants. As can be seen in Table 3, DNR did not request reimbursement for the majority of the grant expenditures until September 1998 or later.

Table 3

Department of Natural Resources
Federal Reimbursement Requests for Selected EPA Grants

<u>Month</u>	<u>Amount Requested</u>
July 1998	\$ 835,653
September 1998	625,173
October 1998	872,840
November 1998	539,733
March 1999	<u>1,304,261</u>
Total	\$4,177,660

DNR explained that it did not request reimbursement for expenditures totaling \$1,304,261 until March 1999 because Bureau of Finance staff were waiting to receive a manually prepared report of state matching costs incurred under the related grant. We estimate that DNR's delays in requesting reimbursement under these five grants resulted in the State losing more than \$68,000 of potential interest earnings.

DNR staff acknowledge the need to make timely federal reimbursement requests and have taken initial steps to implement a monthly CARS processing cycle that will allow them to make such requests on a monthly basis. At the time of our fieldwork, DNR had not yet begun to make monthly requests.

FINDING WI-98-38: *We recommend the Wisconsin Department of Natural Resources request federal reimbursement in a manner to minimize the delay between when the State incurs grant expenditures and when it receives federal reimbursement.* We note that to minimize the delay between incurring grant expenditures and requesting federal reimbursement, DNR should consider including in its monthly reimbursement requests an advance for one-half of the next month's expected expenditures, as some other state agencies do.

Questioned Costs: Multiple Grants: Cash Management = None

DNR Response and Corrective Action Plan: DNR agrees with the recommendation. Staff shortages and workload from audits have prevented DNR from requesting more timely federal reimbursements. DNR will review the procedures used to request federal reimbursements to identify changes to its cash management procedures. DNR will look at billing grants over \$200,000 on a monthly basis, where practical, starting October 1, 1999.

Prior Audit Follow-up

As part of our current audit, we followed up on findings WI-97-46 through WI-97-49 of our FY 1996-97 single audit report. DNR has implemented, or is in the process of implementing, corrective action regarding its cost allocation plan. However, we continue to have concerns related to the reconciliation between CARS and WiSMART and related to property management.

DNR Cost Allocation Plan

DNR allocates indirect costs to federal grants in two ways: administrative costs are allocated under an approved indirect cost agreement, and other costs that are not directly related to grant programs and are not administrative in nature are allocated through CARS. In our FY 1996-97 single audit report, we expressed concerns regarding DNR's method to allocate non-administrative costs to federal grants and questioned \$36,181 plus an undetermined amount of costs allocated to multiple grant programs (Finding WI-97-46). We were concerned because:

- DNR had not sought updated federal approval for its methodology to allocate costs through CARS;
- DNR had not documented CARS and had not maintained documentation that it tested the application; and
- based on the computer files and other information provided by DNR, we were unable to conclude that the application accurately allocated costs to federal grants.

DNR is in the process of implementing corrective action to address these concerns. DNR has written draft documentation of CARS and plans to modify the documentation to reflect changes currently being made to the system. DNR expects the documentation to be finalized by January 1, 2001. In addition, DNR improved its procedures for processing data through CARS, made technical modifications to CARS, and tested those modifications. We tested CARS allocations within the Air Management subprogram, which affects the Air Pollution Control Program Support grant (catalog #66.001), and within the Drinking and Groundwater subprogram, which affects the State Public Water System Supervision grant (catalog #66.432), and found that the application allocated the correct amount of costs to federal grants. Finally, DNR

submitted a revised cost allocation plan to the U.S. Department of the Interior in January 1999. DNR has not yet been contacted by the federal government regarding the proposed cost allocation plan.

The federal government also has not contacted DNR to resolve \$36,181 of prior audit questioned costs. DNR has not reimbursed the federal government for these questioned costs, believing that it incurred sufficient additional state matching expenditures that could be substituted for the amounts questioned.

Reconciliation of CARS and WiSMART

DNR uses CARS to perform expenditure tracking and reporting functions necessary to administer federal grants. To accomplish this, CARS uses data from WiSMART, the State's accounting system, and from DNR's Payroll and Labor System to track and allocate expenditures for various DNR activities. In our prior audit, we noted that DNR did not reconcile CARS expenditures to those reported by WiSMART and, therefore, was not assured that CARS information used for federal reporting and reimbursement requests was complete and accurate. We questioned \$1,048 for the Air Pollution Control Program Support grant (catalog #66.001), plus an undetermined amount for other grants.

In response to our finding (Finding WI-97-47), DNR has reconciled FY 1997-98 data for some subprograms and has not identified material errors. However, Bureau of Finance staff expect that the remaining subprograms will be reconciled only if staff and other resources become available. In addition, because of staff demands associated with modifying and testing CARS, DNR had not yet, as of the time of our fieldwork, started reconciling FY 1998-99 data.

While we recognize the demands associated with making adjustments to CARS, it is important that DNR reconcile expenditures recorded on CARS to those reported by WiSMART, to ensure federal grant activities are appropriately tracked and reported. If it fails to do so, DNR cannot be assured that it has included all valid expenditures incurred during the grant period, and only those expenditures, in its grant reports generated by CARS. It is important that those reports be accurate because DNR uses them to request federal reimbursements, complete federally required reports, and prepare the Schedule of Expenditures of Federal Awards.

We reconciled expenditures recorded on WiSMART to those reported by CARS for the State Public Water System Supervision grant (catalog #66.432). We identified \$872 in costs that were accounted for on WiSMART using the correct appropriation code but an incorrect activity code. The activity code was for the State Public Water System Supervision grant and, therefore, these expenditures were erroneously included on CARS reports used to request federal reimbursement for that grant. While this error was not material, DNR needs controls in place to ensure that similar errors, including those that may be material, are detected.

FINDING WI-98-39: We again recommend the Wisconsin Department of Natural Resources perform a comprehensive reconciliation each quarter between its Cost Accounting and Reporting System and WiSMART.

Questioned Costs: State Public Water System Supervision (catalog #66.432, award #F00529697 and award #F00529698): Reconciliation of CARS and WiSMART = \$872, plus an undetermined amount

Multiple Grants: Reconciliation of CARS and WiSMART = Undetermined

DNR Response and Corrective Action Plan: DNR agrees with the recommendation. Vacancies and other workload from audits have prevented DNR from completing quarterly reconciliations between the CARS and WiSMART systems. DNR will complete the reconciliation for FY 1998-99 by September 30, 1999, and start quarterly reconciliations for FY 1999-2000. However, quarterly reconciliations will not identify incorrect appropriation to activity code combinations. DNR will continue to work with program staff responsible for making program decisions to ensure the proper activity codes are used on all transactions. In addition, DNR has formed a team within the Bureau of Finance to review the issue of data integrity.

Subrecipient Monitoring

DNR provided subgrants during FY 1997-98 under several federal financial assistance programs, including \$457,745 under Sport Fish Restoration (catalog #15.605) and \$446,325 under Nonpoint Source Implementation Grants (catalog #66.460). In our FY 1996-97 single audit report, we expressed concern regarding DNR's ability to fulfill its subrecipient monitoring duties (Finding WI-97-48) because it did not comply with requirements included in *State Single Audit Guidelines*, which were developed by the Wisconsin Department of Administration to assist state agencies to ensure that subrecipients fulfilled their federal single audit requirements. We recommended and DNR agreed to:

- inform subrecipients of the federal subgrant award information, such as CFDA title and number, award name, federal agency, and applicable compliance requirements;
- ensure that subrecipients expending over \$300,000 annually in federal financial assistance receive an audit in accordance with OMB Circular A-133;
- ensure it receives all required audit reports or certifications stating either that an audit was not required or that one was completed with no findings related to DNR grants; and

- perform quality control reviews of auditor work effort for 5 percent of the audit reports of localities for which DNR is the cognizant agency.

DNR has generally addressed our concerns in this area. DNR now provides subrecipients with federal subgrant award information and informs them of applicable compliance requirements. During FY 1997-98, DNR did not award any subgrants over \$300,000 for which it is responsible for performing subrecipient audit monitoring duties. While DNR grants funds in excess of \$300,000 under the Capitalization Grants for State Revolving Funds program (catalog #66.458), the Wisconsin Department of Administration is responsible for monitoring single audit compliance for those subgrants. Finally, DNR has determined that it is not the cognizant agency for any localities that are subject to single audit requirements. Therefore, in accordance with *State Single Audit Guidelines*, DNR is not required to perform quality control reviews of auditor work effort.

Property Management

DNR purchased \$4.8 million of equipment during FY 1997-98, of which a portion was federally funded. According to the *State of Wisconsin Uniform GAAP Conversion Policies and Procedures Manual*, machinery and equipment should be capitalized at the original contract or invoice price. In prior audits, we noted that DNR recorded equipment additions to the inventory system at either purchase order or invoice price, depending on what information was provided by the bureaus or regions to the individual responsible for maintaining the inventory system. We also noted that DNR had not added equipment items purchased with Air Pollution Control Program Support grant (catalog #66.001) funds to the inventory system in a timely manner. DNR did not detect that these items were not added because it did not reconcile in a timely matter capital equipment expenditures recorded on WiSMART during FY 1996-97 with items added to the inventory system.

DNR has not implemented its planned corrective action to our prior audit recommendation (Finding WI-97-49). DNR did not reconcile FY 1997-98 WiSMART equipment expenditures to inventory system additions to ensure that previously purchased items were accurately recorded on the inventory system. In addition, DNR has not developed procedures to ensure that, effective for FY 1998-99, equipment additions are recorded at invoice price and to make quarterly reconciliations of additions to WiSMART. As a result, equipment items may not always be recorded at historical cost.

Since no equipment items were purchased during FY 1997-98 under the two major grant programs tested during our current audit, we reviewed equipment purchased under the Air Pollution Control Program Support grant (catalog #66.001). DNR purchased two equipment items for that grant during our audit period. One item with a cost of \$8,000 was purchased in May 1998 and added to inventory at the invoice price in June 1998. However, DNR purchased a computer and monitor, which had a combined cost of \$5,296, in February 1998 and, as of March 1999, had yet to add them to the

inventory records. The individual responsible for maintaining equipment inventory had not yet been provided with the documentation associated with the computer and monitor. Since DNR did not reconcile equipment expenditures to inventory system additions, the agency was unaware of this omission from the inventory records.

FINDING WI-98-40: *We again recommend the Wisconsin Department of Natural Resources ensure that equipment items are added to the inventory system in a timely manner and at invoice price. In addition, we recommend the Department reconcile, in a timely manner, equipment expenditures recorded on WiSMART to items added to the inventory system.*

Questioned Costs: Multiple Grants: Property Management = None

DNR Response and Corrective Action Plan: The Bureau of Administrative and Field Services is in the process of implementing a new inventory system. Additions to the inventory will be recorded using invoice price starting January 1, 2000. The Bureau of Finance is implementing a personal computer-based method to reconcile WiSMART expenditures to items added to the inventory system. This reconciliation will be completed beginning with FY 1998-99.

**Wisconsin Department of Natural Resources
Summary of Findings and Questioned Costs
FY 1997-98**

U.S. Environmental Protection Agency

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Grant</u>	<u>Finding</u>	<u>Amount Questioned</u>
WI-98-39	66.432	State Public Water System Supervision	Reconciliation of CARS and WiSMART*	\$872, Plus an Undetermined Amount

Noncompliance Findings Affecting Multiple Grants

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Grant</u>	<u>Finding</u>	<u>Amount Questioned</u>
WI-98-38		Multiple Grants	Cash Management	\$0
WI-98-39		Multiple Grants	Reconciliation of CARS and WiSMART*	Undetermined
WI-98-40		Multiple Grants	Property Management*	0

*Repeat finding from audit report 98-12.

Inquiries regarding resolution of findings and questioned costs should be directed to the agency contact person listed in Appendix I of this report.

The Wisconsin Department of Commerce has responsibilities in the areas of community and economic development, business advocacy, development financing, small and minority business assistance, industrial attraction and retention, international trade, and environmental and safety regulation. Commerce disbursed over \$196.5 million during FY 1997-98; federal grants to the State financed \$37.5 million of that amount.

Commerce does not administer any federal grants considered to be high-risk “type A” grants. Therefore, we did not test federal requirements specific to grant programs. However, we did follow up on the recommendation from our prior single audit report (98-12) regarding subrecipient monitoring.

Prior Audit Follow-up

We followed up on Finding WI-97-50 of our FY 1996-97 single audit report. Commerce has not addressed our concerns regarding subrecipient monitoring.

Commerce subgrants funds to local governments and other organizations under the Community Development Block Grants/State’s Program (catalog #14.228). The Wisconsin Department of Administration developed *State Single Audit Guidelines* to assist the State in meeting its subrecipient monitoring obligations. These guidelines provide for the designation of state agencies to act as cognizant agencies to local units of government. For those entities for which it is the cognizant agency, Commerce is to perform desk reviews of subrecipient single audit reports within 90 days of receipt for compliance with reporting requirements and for report contents; conduct quality control reviews of the work of independent auditors to determine whether the auditors have followed the required auditing standards and guidelines for single audits; advise grantees if audits do not meet single audit requirements; and, within six months of the receipt of the audit report, resolve audit findings affecting programs administered by itself and coordinate the resolution of internal control audit findings that affect the programs of more than one agency.

In the prior audit, we found that the Commerce staff person responsible for subrecipient audit monitoring was on a leave of absence for part of FY 1996-97. As a result, desk reviews of audit reports and other tasks were not performed, and a backlog of 58 calendar year 1996 subrecipient audit reports arose. While the staff person returned to work during FY 1996-97 on a part-time basis, other tasks were given priority and this person did not perform subrecipient audit monitoring duties. In its response to our recommendation, Commerce stated that it would be hiring two new auditors who would assist in eliminating the backlog.

However, Commerce has filled only one of the auditor positions. While Commerce has reviewed some of the calendar year 1996 audit reports, 21 reports remained to be

reviewed as of February 1999. In addition, none of the 32 calendar year 1997 audit reports for which Commerce is cognizant agency had been reviewed at the time of our fieldwork. Since the Commerce staff person responsible for subrecipient audit monitoring has taken another leave of absence in FY 1998-99, the backlog is expected to grow unless Commerce gives this area priority.

FINDING WI-98-41: *We recommend the Department of Commerce place priority on completing the desk reviews for the 32 calendar year 1997 audit reports and the 21 remaining calendar year 1996 audit reports for which it is cognizant agency and perform other tasks required by the State Single Audit Guidelines. In addition, we again recommend the Department of Commerce ensure these guidelines are followed in the future.*

Questioned Costs: Community Development Block Grants/State's Program (catalog #14.228): Subrecipient Monitoring = None

Commerce Response and Corrective Action Plan: Commerce agrees with the recommendation regarding the completion of desk reviews of subrecipient audits and other tasks required by the *State Single Audit Guidelines*. During the past year, Commerce was not able to fill both of the new auditor positions as anticipated because of difficulties in attracting qualified candidates. Additionally, one of the auditors was on leave of absence under the Family and Medical Leave Act for a number of weeks, which also contributed to Commerce not being able to be up-to-date on the review of subrecipient audits.

Commerce is in the process of reviewing alternatives to ensure that staff resources are in place to bring the audit review process up to date.

Wisconsin Department of Commerce
Summary of Findings and Questioned Costs
FY 1997-98

U.S. Department of Housing and Urban Development

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Grant</u>	<u>Finding</u>	<u>Amount Questioned</u>
WI-98-41	14.228	Community Development Block Grant/State's Program	Subrecipient Monitoring*	\$0

*Repeat finding from audit report 98-12.

Inquiries regarding resolution of findings and questioned costs should be directed to the agency contact person listed in Appendix I of this report.

The Wisconsin Technical College System Board (WTCSB) establishes policy and direction for the vocational, technical, and adult education programs offered by the 16 district schools in the State of Wisconsin. WTCSB disbursed \$158.1 million during FY 1997-98; federal grants to the State financed \$27.2 million of that amount.

As part of our standard audit procedures, we reviewed WTCSB's internal control policies and procedures over receipts, disbursements, and administration of federal grant programs. We tested WTCSB's compliance with grant requirements for one "type A" major grant program administered by WTCSB: Vocational Education—Basic Grant to States (catalog #84.048). Overall, WTCSB's internal control structure appears adequate to ensure compliance with requirements for the major grant program. We did not identify any new internal control weaknesses or new instances of noncompliance with federal rules.

Prior Audit Follow-up

As part of our current audit, we followed up on the progress WTCSB made in addressing findings WI-97-51 and WI-97-52 in the FY 1996-97 single audit report (98-12). WTCSB is working with the U.S. Department of Education to resolve the maintenance-of-effort reporting finding for the Adult Education—State Grant Program. In addition, WTCSB implemented reasonable corrective action to address time and effort reporting concerns.

Maintenance of Effort Reporting

WTCSB administers various programs related to adult education and expends federal funds under the Adult Education—State Grant Program (catalog #84.002), while matching expenditures with nonfederal dollars. In addition, WTCSB administers other adult education-related projects through the Incentive Grants program, which is primarily funded from the State's general purpose revenues.

In our prior audit, we were concerned because WTCSB did not report all of the Incentive Grant expenditures for Adult Education maintenance-of-effort reporting purposes. We recommended that WTCSB revise previously issued Adult Education financial status reports to include nonfederal expenditures related to all adult education projects, including expenditures under the State's Incentive Grant program, and to ensure all nonfederal expenditures are reported in the future (Finding WI-97-51).

WTCSB continues to disagree with our prior audit finding. The U.S. Department of Education, Division of Vocational-Technical Education contacted WTCSB in a letter dated February 19, 1999, to resolve the audit findings included in the FY 1996-97 single audit report. In its March 31, 1999 response to the Department of Education, WTCSB expressed its belief that the Department of Education defines which expenditures are to be included as maintenance of effort, and that the federal rules do not directly or indirectly imply that all nonfederal adult education expenditures are to be considered for cost-sharing purposes.

WTCSB is in the process of resolving this issue with the Department of Education and is awaiting the federal government's response to its March 31, 1999 reply. Therefore, we do not repeat our recommendation in this area or question costs at this time. In our next audit, we will follow up to determine the final resolution of this matter.

Time and Effort Reporting

OMB Circular A-87 requires that employe salaries and wages chargeable to more than one federal grant program or other funding source be supported by appropriate time distribution records and that the method used to charge federal programs produce an equitable distribution of salary and related costs.

During our prior audit, we noted several instances in which WTCSB did not adjust payroll charges when the work effort reported by employes on certification reports, which are signed by employes and their supervisors, differed from the amounts charged to federal programs (Finding WI-97-52). We recommended WTCSB prepare and follow written procedures to adjust amounts charged to federal grants to reflect actual work effort and that WTCSB review all certification reports filed during FY 1996-97 and adjust charges to reflect actual work effort.

As noted, WTCSB was contacted in a February 19, 1999 letter from the Department of Education to resolve the prior audit findings. WTCSB reviewed certification reports filed during FY 1996-97 and believes that staff did not correctly complete them, but that the work effort charged to federal grants was, overall, correct. WTCSB agrees that \$95 of work effort was inappropriately charged to the State Administrative Matching Grants for Food Stamp Program subgrant, received from the Wisconsin Department of Workforce Development, but adds that WTCSB incurred other eligible grant expenditures to substitute for these ineligible charges.

During our current audit, we found that while WTCSB did not implement written guidelines, it did orally emphasize with staff the need to accurately report work effort on the certification reports. Two of three staff persons with whom we spoke specifically recalled being notified to take more care when completing certification reports.

Our testing during our FY 1997-98 audit did not identify any discrepancies between the work effort employes reported on certification reports and the work effort WTCSB charged to federal grants. Therefore, we do not repeat our recommendation.

The Wisconsin Department of Military Affairs (DMA) provides a military force through the Wisconsin National Guard, which is available for use in state and national emergencies. Through the Division of Emergency Government, DMA also implements statewide emergency preparedness plans and administers federal disaster and emergency relief funds. During FY 1997-98, DMA disbursed over \$48.3 million; federal grants to the State financed \$25.8 million of that amount.

As part of our standard audit procedures, we reviewed DMA's internal control policies and procedures over receipts, disbursements, and the administration of federal grant programs. We tested DMA's compliance with grant requirements for the National Guard Military Operations and Maintenance Projects (catalog #12.401) grant, a "type B" major program administered by DMA and received from the U.S. Department of Defense, National Guard Bureau. The grant provides for annual awards governed under different appendices to a cooperative agreement between DMA and the National Guard Bureau. DMA received funding under ten different appendices during FY 1997-98.

We did not identify any new internal control weaknesses related to the administration of federal grant programs or new instances of noncompliance with federal requirements.

Prior Audit Follow-up

As part of our current audit, we followed up on the progress DMA has made in implementing corrective action to address findings WI-97-53 through WI-97-56 of our FY 1996-97 single audit report (98-12). We continue to have concerns related to time and effort reporting and matching.

Time and Effort Reporting

During FY 1997-98, DMA charged \$7.4 million in salary and fringe benefit costs directly to the National Guard Military Operations and Maintenance Projects grant for approximately 185 full-time equivalent positions, the majority of which are program personnel. OMB Circular A-87 requires agencies receiving federal funds to follow specific requirements for supporting salary and fringe benefit costs charged to federal programs or used to meet state matching requirements. Employees working exclusively on a single federal program must, at least semi-annually, certify they worked solely on the federal program. These certifications must be signed by the employees or their supervisors. An employee working on multiple activities is required to complete monthly personnel activity reports, which are to account for the total activity of the employee, to be completed after the fact, and to be signed by the employee. If budget estimates are initially used to charge costs to federal grants, DMA is to compare the budgeted work effort to actual effort each quarter and adjust costs charged to the federal grants.

In our prior audit, we reported DMA was not requiring employes whose salaries were charged to the National Guard Military Operations and Maintenance Projects grant to complete semi-annual certifications or monthly personnel activity reports (Finding WI-97-53). In response, as noted in our prior report, DMA obtained federal approval for a substitute system for allocating administrative personnel salaries to the National Guard Military Operations and Maintenance Projects grant starting in FY 1997-98. In addition, DMA indicated it would implement procedures by March 31, 1999 that require semi-annual certifications for federally funded employes who spend all of their work effort on grant-related activities. Finally, DMA indicated it would seek during the 1999-2001 biennial budget process position authority in a program revenue-service appropriation for the one employe we identified as working on multiple activities. Rather than charging state and federal accounts for work effort based on monthly personnel activity reports, DMA indicated federal and state activities would be charged proportionately for salary and related costs through the pricing structure applied to purchases from the warehouse in which this one employe worked.

However, DMA has only partially implemented its corrective action plan. DMA included in its 1999-2001 biennial budget a request for position authority in a program revenue appropriation. If this request is approved, DMA expects to charge, starting in FY 1999-2000, salary and related costs for the one centralized warehouse employe whose salary was questioned in the prior audit to a program revenue-service appropriation, rather than directly to federal accounts.

However, DMA has not implemented its corrective action plan regarding semi-annual certifications and continues to be in noncompliance with OMB Circular A-87 documentation standards for salaries and fringe benefits charged directly to the National Guard Military Operations and Maintenance Projects grant or used as state match for the grant. DMA staff argue that semi-annual certifications or monthly personnel activity reports are not necessary because employes work solely on the National Guard Military Operations and Maintenance Projects grant, and these positions would not exist if federal funding were not available. However, the certifications are a clear requirement in the federal regulations, and without them DMA is not able to identify those instances in which employes may work on other activities, such as performing maintenance at a non-federally supported facility.

FINDING WI-98-42: *We again recommend the Wisconsin Department of Military Affairs comply with employe work effort documentation requirements included in OMB Circular A-87 for the National Guard Military Operations and Maintenance Projects grant and require semi-annual certifications of work effort from employes who spend all of their work effort on grant-related activities, and monthly personnel activity reports from employes working on multiple activities.* To assist DMA, we provided an example of a semi-annual certification form used by another state agency, which DMA could use in developing its own form.

Questioned Costs: National Guard Military Operations and Maintenance Projects (catalog #12.401): Time and Effort Reporting = Undetermined

DMA Response and Corrective Action Plan: DMA concurs with the recommendation regarding documentation of employee work effort. DMA acknowledges that a certification process for employees involved in direct agreement activities was not implemented in FY 1998-99. However, DMA believes it has made significant progress in dealing fairly with employees who in the past have been charged to cooperative agreements but performed multiple activities. It is DMA's opinion that the proper allocation of costs associated with those who perform multiple activities is the most significant problem, and that work effort documentation is not as effective and accurate as systems that are based on measurable and verifiable workload outputs. The Direct Administrative Services Cost Plan implemented in FY 1997-98 has worked well, and DMA believes it accurately assigns the costs of financial, personnel/payroll, and purchasing activities to the agreement appendices that use those services. DMA requested authority in the 1999-2001 biennial budget to shift the salary and funding for the Camp Williams central storekeeper to a program revenue-service appropriation. Based on budgeted costs for the position, and a two-year average of the costs of goods sold, DMA has instituted a 23 percent markup over cost for all items shipped from the warehouse that will be applied uniformly to both state and federally supported facilities.

Period of Availability

DMA administers the annual National Guard Military Operations and Maintenance Projects grant, which is awarded on a federal fiscal year basis ending September 30 of each year. According to ss. 12-1f.(2) and 32-1.e.(2) of *Grants and Cooperative Agreements, NGR 5-1/ANGI 63-101 (Interim)*, "States must obligate funds under the cooperative agreement within the period of availability. Thus, current operations and maintenance appropriations must be obligated by the State by September 30." In addition, these obligations must be liquidated no later than 90 days after the end of the grant period. However, the liquidation period may be extended provided DMA submits notification to the United States Property and Fiscal Officer (USPFO) of obligations existing at September 30 that remain unliquidated as of December 31. This notification must contain the estimated liquidation date for each obligation.

During our prior audit, we found DMA did not have internal control policies and procedures in place to ensure obligations are charged to federal grants by the end of the grant period and that these obligations are liquidated in accordance with federal rules (Finding WI-97-54). Budget and Finance Office staff had not provided specific, written instructions to program staff who approve account coding for expenditures regarding the need to ensure that expenditures are charged to the proper grant year and, in the event the obligations are subject to the 90-day liquidation period, are liquidated in a timely manner.

DMA has taken some corrective actions in this area. While DMA has not prepared written guidance regarding the period of availability requirement, it did instruct staff of the need to follow the requirement, and employees with whom we spoke appeared knowledgeable of the requirement. We reviewed a copy of a report DMA submitted during our audit period to the USPFO that identified obligations that would be

liquidated after the period of availability. While the report did not contain estimated dates of liquidation for the outstanding obligations, it was not rejected by USFPO. Therefore, we do not repeat our finding in this area.

Federal Funding of Construction Projects and Matching Requirements

Under the direction of the Building Commission, the Wisconsin Department of Administration (DOA) Division of Facilities Development (DFD) oversees the planning and execution of state agency capital construction projects, including processing of expenditure payments for these projects. DFD administers projects that are financed by state general obligation bonding sources and agency funds. DMA's agency funding for construction projects is federal funding from the U.S. Department of Defense under the National Guard Military Operations and Maintenance Projects grant.

In our FY 1995-96 single audit, we reported it is DFD policy to expend all available federal funding for these projects before any state bonding funds are used. This policy resulted in DMA requesting federal reimbursement for 100 percent of project expenditures until the full federal portion is expended, and only later charging project costs to state funding sources. As a result, the federal government subsidized construction projects by more than its agreed-upon share of costs during the earlier stages of a project.

During our FY 1996-97 audit, we found similar conditions and recommended (Finding WI-97-56) DMA work with DFD both to ensure federal reimbursements are requested only for the federal government's share of construction project costs and to develop accounting procedures to ensure DMA meets matching requirements throughout the course of the project. DMA has worked with DFD staff to resolve these concerns. Effective August 1998, DMA implemented procedures to ensure that it requests federal reimbursement for only the federal government's share of construction costs during the course of a project, which should also ensure that the State meets its match requirements. We found that DMA requested the appropriate amount of federal reimbursements for six of eight construction projects we tested. We discussed the other two projects with DMA staff, who acknowledged errors were made in processing state matching expenditures. However, DMA took the necessary action to correctly charge the federal government for only its share of expenditures for these two projects.

While improvements have been made related to construction project expenditures, a new concern is that DMA needs to ensure it accurately accounts for non-construction expenditures to ensure state matching requirements are met. Non-construction expenditures related to National Guard Military Operations and Maintenance Projects totaled \$1,022,401 during FY 1997-98. Currently, DMA staff identify the appropriate state and federal share of non-construction expenditures at the time invoices are initially processed for payment. However, DMA does not periodically verify that there were no coding errors and that matching requirements were, in fact, met.

We reviewed records to determine whether DMA met its matching requirements for “armories on federal land” expenditures. DMA did not meet its 25 percent state matching requirement for \$77,012 of non-construction expenditures for materials, supplies, and contracts. State matching expenditures totaled only \$17,565, rather than the required \$19,253. Therefore, we question \$1,688 that DMA charged to federal accounts, rather than to state matching accounts. While the amount of questioned costs is not significant and we do not believe the total related to this grant would exceed \$10,000, DMA does not have the necessary control policies and procedures in place to ensure proper matching requirements are met for the grant.

FINDING WI-98-43: *We recommend the Wisconsin Department of Military Affairs periodically ensure it has met state matching requirements for non-construction expenditures charged to National Guard Military Operations and Maintenance Projects.*

Questioned Costs: National Guard Military Operations and Maintenance Projects (catalog #12.401): Matching Requirements = \$1,688.

DMA Response and Corrective Action Plan: DMA concurs, in general, with this recommendation. DMA believes most of the unmatched costs cited by the auditors were the result of simple coding errors. DMA found instances in which certain utility costs that were supposed to be 100 percent federal were properly paid with federal funds but were coded to reporting categories that indicate they were to be split between federal and state accounts. DMA also noted areas in the past in which the “state share” of certain costs allocated to various agreement appendices were lumped into a single entry, rather than being recorded as matching expenditures at the grant level. For FY 1998-99, DMA has recorded the “state share” of the state financial services billing and the single audit billing at the grant level, rather than simply at the appropriation level. Beginning in FY 1999-2000, DMA also intends to record the absorbed costs from its internal cost allocation plan at the grant level as an “in-kind” match to charges levied against the federal appendices.

However, DMA will continue to rely primarily on the initial allocation of individual transactions to meet its match requirements, particularly for the Army National Guard Operations and Maintenance agreement. Because of the new account structure mandated by the Department of the Army beginning in FY 1998-99, a number of accounts include both matched and unmatched costs within the same account. As a result, a review of overall account balances will be insufficient to determine if matching requirements have been fully met. Individual transactions will have to be reviewed to determine how matching funds were applied. DMA does not believe it would be cost-effective to develop additional subsystems to separate these co-mingled costs. It is entirely possible that conflicting limitation between federal reporting requirements and the State’s accounting code structure may prevent DMA from ever fully satisfying audit concerns in this area.

Equipment Management

In our prior audit, we noted that, due to apparent oversight, DMA charged equipment expenditures to the National Guard Military Operations and Maintenance Projects grant but did not record the equipment on its computerized inventory system (Finding WI-97-55). We recommended DMA reconcile capital asset additions on the inventory system with corresponding capital purchases on the State's central accounting system. During our FY 1997-98 audit, we found that all capital acquisitions purchased under the National Guard Military Operations and Maintenance Projects grant had been recorded on the DMA computerized inventory system.

Wisconsin Department of Military Affairs Summary of Findings and Questioned Costs FY 1997-98

U.S. Department of Defense

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Grant</u>	<u>Finding</u>	<u>Amount Questioned</u>
WI-98-42	12.401	National Guard Military Operations and Maintenance Projects	Time and Effort Reporting*	Undetermined
WI-98-43	12.401	National Guard Military Operations and Maintenance Projects	Matching Requirements*	\$1,688

* Repeat finding from audit report 98-12.

Inquiries regarding resolution of findings and questioned costs should be directed to the agency contact person listed in Appendix I of this report.

DEPARTMENT OF AGRICULTURE, TRADE AND CONSUMER PROTECTION

The Wisconsin Department of Agriculture, Trade and Consumer Protection (DATCP) is responsible for administering programs related to food and trade regulation, animal and plant health services, marketing services, agricultural assistance, and land conservation. DATCP disbursed \$52.7 million during FY 1997-98; federal grants to the State financed over \$4.7 million of that amount.

DATCP does not administer any federal financial assistance programs selected for review according to the risk-based approach required by OMB Circular A-133. Therefore, we did not test federal compliance requirements specific to grant programs. However, we did follow up on the recommendation from our prior single audit report (98-12) related to time and effort reporting.

Prior Audit Follow-up

OMB Circular A-87 requires state agencies receiving federal funds to follow specific requirements for supporting salary and fringe benefit costs charged directly to federal programs or used to meet state matching requirements. Employees working exclusively on one federal program may semi-annually certify that they worked solely on the federal program. This certification must be signed by the employee or supervisor. Employees working on multiple activities are required to complete personnel activity reports that account for the total activity of the employees, are completed after the fact, and are signed by the employees. If budget estimates are used initially to charge costs to federal programs, a comparison of budgeted work effort to actual effort must be completed quarterly and adjustments must be made to the costs charged to federal programs.

In our prior audit, we noted several deficiencies with DATCP's time and effort reporting system (Finding WI-97-57). First, DATCP did not require two employees in the Agricultural Resource Management Division to complete semi-annual certifications or personnel activity reports. We questioned \$46,676 in salaries, fringe benefits, and related indirect costs for one of these employees, whose work effort DATCP charged to the Cooperative Forestry Assistance grant (catalog #10.664). Second, DATCP did not require staff in the Food Safety Division to sign their activity reports. Finally, for work effort that could not be readily attributed to either the federal Meat and Poultry Inspection grant (catalog #10.475) or the state food inspection program, DATCP allocated work effort evenly between the two grants without seeking federal approval for this allocation methodology.

DATCP has implemented corrective actions to address our prior audit concerns. Currently, DATCP requires all employees working on multiple grants or programs to complete personnel activity reports.

However, DATCP charged the salaries and related costs for the same two employes to the Cooperative Forestry Assistance grant during FY 1997-98. DATCP calculated and documented salary, fringe benefit, and indirect costs for other individuals whose payroll expenditures were eligible to be charged to the Cooperative Forestry Assistance grant and could be substituted for the questioned costs. We reviewed the available time records for the other employes and found that the records met minimum Circular A-87 documentation requirements. The substituted salary and related costs exceeded the salary and related costs for the two employes originally charged to the grant. Therefore, we do not question any costs during our current audit.

To address our second prior-audit concern, DATCP now requires Food Safety Division staff to sign personnel activity reports. All ten activity reports that we reviewed for the month of March 1999 were signed by employes.

Finally, in February 1999, DATCP received U.S. Department of Agriculture approval to allocate support staff salaries to the federal Meat and Poultry Inspection grant and the state food inspection program based on the relative work effort, as documented by personnel activity reports, of those employes who work directly on those programs. We reviewed support staff salaries charged to the Meat and Poultry Inspection grant for the quarter ending December 31, 1998, and found that DATCP followed the approved methodology.

HIGHER EDUCATIONAL AIDS BOARD

The Wisconsin Higher Educational Aids Board (HEAB) is responsible for the management and oversight of the State's student financial aid system for Wisconsin residents attending institutions of higher education. HEAB disbursed over \$57.7 million during FY 1997-98 through various financial aid programs; federal grants to the State financed over \$1.3 million of that amount.

In the past, HEAB provided student financial aid under the Health Education Assistance Loan (HEAL) Program. Though HEAB has not issued new loans under the HEAL Program since the mid-1980s, HEAB is responsible for collecting these outstanding loans, which had a reported outstanding balance of nearly \$5.1 million as of June 30, 1998. Therefore, as part of our current audit, we reviewed HEAB's internal control policies and procedures related to the applicable federal requirements.

Overall, HEAB's internal control structure appears sufficient to ensure compliance with grant requirements for the HEAL Program. However, we identified concerns related to the collection and reporting of delinquent HEAL balances.

Loan Collection and Reporting

The State of Wisconsin issued revenue bonds in the early and mid-1980s to make funds available for HEAL Program loans to eligible medical and dental students. It was expected that loan payments received from the students would be sufficient to make scheduled revenue bond interest and principal payments. The U.S. Department of Health and Human Services (DHHS) guarantees the loans and reimburses HEAB for defaulted loans after due diligence collection procedures have been completed.

During the FY 1997-98 single audit, we reviewed 20 loans to ensure collection procedures were performed in accordance with federal regulations. Of these 20 loans, we found 6 defaulted loans that had been submitted to DHHS for reimbursement but still had outstanding balances, totaling approximately \$15,325, on HEAB's loan collection system.

HEAB staff stated that five of the accounts consisted only of interest that had accrued between the date the guarantee requests were submitted to DHHS and the date reimbursements were received. However, of the six loans reviewed, we also found one outstanding loan balance that was the result of an unexplained DHHS principal underpayment. For this loan, HEAB submitted a reimbursement request in October 1996 for \$256,111, but it received only \$251,350 in November 1996. Although the payment from DHHS was \$4,761 less than requested, HEAB did not pursue or inquire further about the underpayment. The outstanding balance has since grown to \$7,212 because of accruing interest.

DHHS requires HEAB to submit quarterly reports detailing the number, balance, and status of outstanding loans remaining in its HEAL Program. HEAB staff were unable to determine if these federal reports have been overstated by including accounts and accrued interest that HEAB may no longer be able to collect from DHHS.

Though accrued interest between the date reimbursement is requested and the date it is received may be unavoidable, HEAB should ensure its records are appropriate and updated in a timely manner and ensure the appropriate reimbursement amounts are received from DHHS. If all reimbursable loan amounts are not collected from DHHS, HEAB may lack funds necessary to make its scheduled bond payments.

FINDING WI-98-44: Therefore, we recommend the Wisconsin Higher Educational Aids Board:

- identify and attempt to collect all outstanding loans in the Health Education Assistance Loan Program in which the requested reimbursement amount from the U.S. Department of Health and Human Services is less than the amount collected;
- write off outstanding balances that are currently uncollectible from the Department of Health and Human Services, such as balances that consist only of interest accrued between the reimbursement request and receipt dates; and
- verify that its federal reports are not overstated because of outstanding principal balances or accrued interest that will not be collected, and submit revised reports if necessary.

Questioned Costs: Health Education Assistance Loan Program (catalog #93.108): Loan Collection and Reporting = None

HEAB Response and Corrective Action Plan: HEAB agrees with the recommendations. HEAB has identified a total of 35 defaulted loans in which reimbursement was sought from DHHS but outstanding balances remain. HEAB staff have requested full reimbursement for 19 loans that were apparently underpaid by DHHS, and will be writing off 16 other loans that consist only of accrued interest. In addition, HEAB agrees to submit a revised report to DHHS when the 19 identified loans have been resolved.

Wisconsin Higher Educational Aids Board
Summary of Findings and Questioned Costs
FY 1997-98

U.S. Department of Health and Human Services

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Grant</u>	<u>Finding</u>	<u>Amount Questioned</u>
WI-98-44	93.108	Health Education Assistance Loan Program	Loan Collection and Reporting	\$0

Inquiries regarding resolution of findings and questioned costs should be directed to the agency contact person listed in Appendix I of this report.

OTHER STATE AGENCIES

The previous sections of this single audit report present, for specific state agencies, our findings related to internal control weaknesses and instances of noncompliance with federal rules and regulations. We have included our recommendations, identified questioned costs, incorporated the agencies' responses and corrective action plans, and reported the results of our follow-up to the findings presented in the State of Wisconsin single audit report (98-12) for the previous fiscal year.

In addition to our audit work at those state agencies, ten other agencies administered various federal financial assistance programs. For these agencies, we did not identify any new internal control weaknesses or new instances of noncompliance with federal requirements. No instances of noncompliance and no questioned costs were reported as a result of our prior year's audit work at these agencies. Therefore, no prior audit follow-up was necessary. The other Wisconsin state agencies and the amount of direct federal expenditures, as well as expenditures under subgrant agreements, for each agency are included in Table 4.

Table 4

Other State Agencies' Federal Expenditures
FY 1997-98

<u>Wisconsin State Agency</u>	<u>Direct Federal Expenditures</u>	<u>Expenditures Under Subgrant Agreements</u>	<u>Total</u>
Department of Veterans Affairs	\$10,563,914	\$ 1,767	\$10,565,681
Department of Justice	4,850,701	5,052,323	9,903,024
Department of Corrections	2,809,732	3,739,738	6,549,470
State Historical Society of Wisconsin	764,564	477,441	1,242,005
Child Abuse and Neglect Prevention Board	580,277	0	580,277
Wisconsin Arts Board	519,925	0	519,925
Educational Communications Board	227,965	0	227,965
Board on Aging and Long-Term Care	0	207,838	207,838
Public Service Commission	0	145,535	145,535
Department of Revenue	53,478	0	53,478
